TRENDS IN DEVELOPING ECONOMIES 1990

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Foreword

Trends in Developing Economies (TIDE) presents brief analytic descriptions of recent economic performance and trends in individual developing countries for the majority of World Bank borrowing countries and economic and social data for all borrowing country members. It is designed as a ready reference for the economic analyst, investor, researcher, or businessperson and is a by-product of the World Bank's internal data base and economic analyses of its borrower member countries.

By making this information widely available, the Bank hopes to contribute to increased understanding of the developing economies and their economic potential. Although detailed analyses of the major economies may be available elsewhere, TIDE fills an important gap by making information systematically available for the majority of developing countries.

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Introduction

This second edition of *Trends in Developing Countries* (*TIDE*) provides short reports on most of the World Bank's active borrowing countries as of May 1990. Since these reports were written, there has been a major disruption in the international oil markets, and increases in oil prices. The outlook for oil prices remains extremely uncertain and it is possible that development prospects of oil importing countries will already be affected. Despite this, the country reports in this volume contain a wealth of information that remains relevant. Readers are therefore asked to bear in mind when *TIDE*'s country reports were written and to reach their own judgments about how subsequent events alter any country's development prospects.

The first part of this Introduction discusses how recent events may alter prospects for developing economies in general, and which information in *TIDE*'s economic indicator tables (EITs) is most relevant for re-assessing country prospects. The second part provides further explanation about *TIDE* itself.

Events Since Country Reports Were Written

An immediate consequence of recent events in the Middle East was that oil output of about 4 million barrels a day from Iraq, Kuwait, and the neutral zone was taken off the market and the price of oil increased sharply in response. August 1990 spot prices were nearly double what had been expected when *TIDE*'s country reports were written. These increases in the price of oil, if long sustained, are bound to have far-reaching consequences for Bank borrowers. Beyond the immediate consequences, there would be second round effects through increases in real interest rates and a slowdown in the industrial economies which purchase the bulk of developing country exports.

Although developing countries in the aggregate are net exporters of oil, the vast majority of developing countries are net oil importers who will face a deterioration in their terms of trade. Those with variable interest rate external debt will bear the additional burden of higher interest payments. The trade section at the top of the second page of each country's EIT reports the U.S. dollar value of exports and imports of oil (omitted where not important); when divided by dollar GDP (given on the bottom of the same page, without adjusting for any volatile movements in official exchange rates) the measure, net oil imports or exports, gives an indication of how deeply the economy is likely to be affected. The external debt indicators in *TIDE*'s EITs provide some indication of which countries are severely indebted, and how much of a country's debt is held at variable interest rates. *TIDE* commentaries about arrears and debt reschedulings indicate which countries were already encountering severe debt-servicing problems.

Bank borrowers that are net oil exporters will certainly benefit from higher oil prices even after taking into account the adverse impact of higher interest rates. These windfall gains could be used to strengthen reserves, cut budget and balance of payments deficits, reduce external debt exposure, or raise the level of investment in the country.

There is little doubt that the developing countries' non-oil exports to industrial countries will grow more slowly as a result of slower economic growth in industrial countries. However, some Bank borrowers may be able to capture a larger share of the growing trade with oil exporters.

Some Bank borrowers face major financial consequences beyond the impact of oil prices and interest rates, because of special circumstances. The loss of workers' remittance, earnings from construction contracts, and tourism will affect several countries; particularly in the Middle East and South Asia. An idea of how vulnerable they are can be gleaned from the balance of payments section of *TIDE*'s EITs, which report workers' remittances (although not disaggregated according to the country or region where earned). Also important to some Bank borrowers, but not shown separately, is income from large construction projects in the Middle East.

About TIDE

This compendium of individual country economic reports serves as a complement to the *World Development Report*, which looks at major global and regional economic trends and their implications for the future prospects of the developing economies. *TIDE* digests information from national sources and adds staff commentary as necessary to explain recent developments for the benefit of analysts who are familiar with macroeconomics but not, perhaps, with every country under review.

Like the *World Development Report*, *TIDE* is a study by the staff of the World Bank and the judgments in it do not necessarily reflect the views of the Board of Directors or the governments they represent.

TIDE is not intended to and cannot replace comprehensive country studies published by the Bank. Nor should *TIDE* be regarded as the definitive source of evaluations of an economy. Some Bank borrowers disseminate their own economic reports, which may provide more current information or more authoritative evaluation. *TIDE* aims for the middle ground of reasonably uniform and current discussions of trends in many individual economies.

Economic developments, especially of the recent past, are subject to interpretation. Legitimate concerns can be expressed about the accuracy of such current estimates and assessments, whether from *TIDE* or from other sources. Mindful of the international community's plea for current information, the Bank views publication of *TIDE* as a significant contribution to a better and more universal understanding of development issues. Nevertheless, readers should pay more than usual attention to admonitions about the provisional character of data and commentary reported here. In many instances, the data for the most recent years are Bank staff estimates that are preliminary and subject to revision; they may not conform to data published by national authorities.

The text is deliberately kept descriptive, rather than prescriptive. It is mainly concerned with current events and the recent past in each country, but also places events in context by bringing out the distinguishing characteristics of a country's economy, its problems and prospects, and the principal elements of its development strategy. While the choice of topics may vary, recurrent themes are government initiatives in progress or under consideration, economic and social factors affecting development, and the external debt situation.

Each country text is followed by tables of economic indicators, or EITs. An effort has been made to ensure consistency between the text and the data in EITs but this has not necessarily been achieved. Differences reflect the use of data of different vintages, as well as some variations in definitions and concepts. The tables contain the latest available information. Although an effort has been made to ensure comparability across countries and time periods, this is not the case in all instances. Readers are accordingly urged to exercise caution in interpreting the numbers. The Socio-Economic Data Division of the Bank's International Economics Department (IECSE) would welcome comments and corrections to the data from readers.

This second edition covers many but by no means all Bank borrowers, arranged in alphabetical order. Texts were prepared in April-May 1990. Consequently, many recent events and developments at the country level during the last four months are not included.

Efforts have been made to avoid or at least explain country-specific terminology. Abbreviations and acronyms with wider application are noted at the end of the book, after the technical notes. Readers interested in more detailed descriptions of the economic indicators should refer to other Bank publications, notably *World Development Report*, *World Tables*, and *World Debt Tables*. Readers interested in the comprehensive country studies referred to above should write to World Bank Publications, 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. for a copy of the Bank's *Index of Publications*.

Algeria

Algeria faces tough challenges in the years ahead. First, the economy suffers from inefficient resource allocation, a legacy of over 20 years of central planning. Second, demographic trends are aggravating unemployment and overstretching the country's social infrastructure. Third, the economy is heavily dependent on hydrocarbons, and vulnerable to fluctuations in world petroleum prices. While high oil prices in the 1970s and early 1980s masked growing economic deficiencies, the crisis following the collapse of oil prices in 1986 brought these deficiencies to the fore. In response, the authorities began a rapid and sweeping reform aimed at transforming Algeria into a market-based economy. Results are beginning to show, notably at the level of the reduction of fiscal deficits and in the agricultural supply response. Provided the reforms are pursued firmly and oil prices remain steady in the coming few years, medium-term growth prospects are good.

The distortions built up from a history of central planning have resulted in an inefficient system of resource allocation. For more than two decades following independence in 1962, and particularly after the First Three-Year Plan was launched in 1967, Algeria was a command economy. All production, pricing, marketing and investment decisions were taken centrally and embodied in the plan. The distorted incentives and inefficiency arising from this system of centralized management and price controls have inflated resource requirements. While rapid industrialization in the 1970s produced average annual GDP growth of 6.6 percent, such growth required investment of some 42 percent of GDP, delaying per capita consumption increases. In addition, an overvalued exchange rate and administered foreign exchange allocation led to inflated import requirements. By 1980, for example, producer imports reached 158 percent of manufacturing value added.

Algeria's rapidly expanding labor force has aggravated unemployment, already inflated by capital-intensive industrialization and wage rigidities, while continued population growth threatens the country's impressive social development. Currently, the population numbers 24 million, with some three-quarters under the age of 30. As a result, the labor force is growing at about 4 percent per year. While improvements in the education system (e.g., primary school enrollment rates reached 95 percent in 1986) have sharpened the skills of new entrants, the historically capital-intensive pattern of industrial development and inflexible wage regime have created labor absorption problems. The open rate of unemployment in urban areas is now estimated at more than 23 percent. Although it is slowing, population growth has averaged over 3 percent during the past 20 years, overstretching social services, especially the provision of public housing. The number of persons per housing unit, for example, is estimated to have risen from 6.1 in 1966 to 7.8 in 1985. Together with rapid industrialization, population growth has also taxed the environment. Water resource management and pollution control, in particular, have experienced growing problems.

While Algeria is richly endowed with hydrocarbon reserves, its historically petroleum-oriented development pattern has created an over-dependence on this sector. Currently, gas reserves amount to nearly 4 percent of proved world reserves, enough to sustain current rates of production for some 100 years. Although less plentiful, the present oil production-to-reserves ratio stands at some 22 years. The importance of the hydrocarbon sector, which has comprised 30-35 percent of total value added in constant prices since 1980, can be seen in both the fiscal and the external trade accounts. In 1985, before the fall in world oil prices, hydrocarbons accounted for 43 percent of Treasury tax revenue and 98 percent of merchandise exports.

The collapse of oil prices in 1986 unmasked growing deficiencies in the Algerian economy. By the turn of the decade, distortions resulting from central planning had already begun to affect some sectors. Agricultural production, the major portion of which was organized into large state farms after independence, stagnated through the late 1970s and early

1980s. By 1982, agricultural value added accounted for only 6.7 percent of total value added in constant prices, compared with more than 10 percent in the mid-1960s. Food imports accounted for 19 percent of the total value of imports, compared with less than 10 percent in the late 1960s. The 49 percent drop in the average price of Algerian crude in 1986 brought economic deficiencies suddenly and painfully into the open. While GDP stagnated over the next three years, per capita consumption fell sharply and unemployment, already close to 17 percent in 1985, rose above 20 percent. Faced with this declining economic performance, the authorities initiated a serious reform program in mid-1986.

Recent Economic Developments

Since 1986, major institutional reforms, accompanied more recently by policy and incentive reforms, have set the economy on a transition path to a market-based system. Institutional reform, aimed at improving economic efficiency, began with the passage of legislation in the agricultural, industrial, and financial sectors in mid-1986. However, continued economic deterioration, driven by a further decline in oil prices and a disastrous harvest in 1988, fanned social tension. Unrest reached the breaking point with several days of rioting in October 1988. Despite the hardship, or perhaps because of it, the drive for economic reform accelerated, accompanied by political liberalization. In 1989, the authorities embarked on a program of policy and incentive reform, including formulation of precise fiscal and monetary targets. Together with firmer oil prices, the program resulted in significantly improved macroeconomic performance in 1989.

Since its debut in 1986, institutional reform has transformed the agricultural, industrial, and financial sectors. In agriculture, production has essentially been privatized. In 1987, all 3,400 state farms were broken up into 80 hectare parcels and given to small groups of farmers on permanent lease. Under the scheme, farmers plan their production and investment, reaping profits. They can bequeath leases or, subject to certain conditions, transfer leases to others. The parcels, however, cannot at present be divided. As a result of reform, indications are that effort, and yields per hectare in irrigated areas, have increased. Although hampered by two years of drought, agricultural output rebounded in 1989, registering 12.5 percent growth compared with the 5.1 percent decline in 1988, due, in part, to locust infestation.

The public enterprise sector has undergone extensive institutional reform. Legislation in 1988 approved the passage to autonomy of all save some 40 "strategic" public enterprises. Eight state holding companies were established in late 1988 to act as shareholders and to oversee enterprise operations. Under the new system, which now operates subject to commercial law and replaces direct control of each enterprise by a designated Ministry, enterprises are autonomous in production, investment and finance. By the end of 1989, over 300 of the most solvent national-level enterprises, out of a total of about 470, had been restructured and granted autonomy. Autonomy includes the right to retain all directly earned foreign exchange. Additional foreign exchange is allocated administratively by the Central Bank. Moreover, under a new price law enacted in 1989 the prices of some 30 percent of production have been freed and the majority of remaining fixed prices replaced with controlled "cost-plus" margins.

Institutional reforms have affected the entire banking sector. Commercial banks were launched as autonomous units early in 1989. Banks are now charged with ensuring their own solvency, which requires mobilizing deposits and allocating credit subject to commercial criteria. This autonomy contrasts with the banks' previous roles as automatic lenders to parastatals entitled to pre-programmed advances from the central bank. Under the new *Code de la Monnaie et du Credit*, passed by the National Assembly in April 1990, the central bank has been given a clear mandate to manage monetary policy. To assure the central bank's independence, the governor is appointed for a six-year term and could only be removed with great difficulty in the interim.

Despite the initiation of reform, hardship continued through 1987, and worsened in 1988. After stabilizing at US$18.50 in 1987, the oil price fell again to US$16.20 in 1988. Partly because of a continuing deterioration in creditworthiness—the medium- and long-term debt-to-export ratio reached 228 percent in 1987 and 269 percent in 1988, while the debt service ratio, after improving slightly to 53 percent in 1987, deteriorated sharply to 73 percent in 1988—the authorities elected to limit external imbalance by cutting imports further. The dollar value of imports fell by 17 percent in 1987 and stagnated in 1988. In response, GDP fell by 0.5 percent in 1987, and a further 2.3 percent in 1988. The poor harvest in 1988 aggravated consumer shortages. Overall, per capita consumption declined by 12 percent in 1987 and by a further 5 percent in 1988. In October 1988, tension reached the breaking point. Riots struck Algiers and other major cities. Fortunately, the situation calmed within a few days and has since eased considerably.

Meanwhile, the drive for reform accelerated. The momentum for change increased when, following the

October 1988 riots, President Chadli Bendjedid put a sweeping package of reforms, political as well as economic, to a popular referendum. The package gained wide approval. Political parties, including the *Front islamique du salut* (FIS), were legalized and elections planned. During the municipal elections in June, 1990, the FIS gained a majority of the popular vote. National legislative elections are now planned for the first quarter of 1991. In 1989, the pace of institutional reform quickened, and the government's commitment to policy and incentive reform deepened. In September 1989, citing a need to progress even faster, the President appointed Mouloud Hamrouche, a firm advocate of reform and a long-time aide, as prime minister. There is thus little doubt concerning the political will at the highest levels for reform.

As part of the accelerated reform effort, progress has been made in improving the macroeconomic policy framework. In particular, the program formulated strict fiscal and monetary targets in 1989 to help restore budgetary balance and slow the growth of monetary and credit aggregates. To strengthen monetary policy instruments, the authorities launched an overnight money market in 1989. Consultations on debt management have centered on controlling interest and exchange rate risk, in addition to initiating the use of petroleum-linked debt instruments. To improve debt management, the central bank established in 1989 an external debt management committee (*Comité des emprunts extérieurs*) to approve all operations of over US$2 million. In 1990, Algeria completed its first oil-linked operation with a US$100 million medium-term loan syndicated by Chase Investment Bank Limited.

Within the policy framework, macroeconomic price adjustment has begun. There have been recent movements in the exchange rate, interest rates, and the prices of goods and services. However, further adjustment is needed. Between 1986 and 1989, the Algerian dinar was devalued by 38 percent in real effective terms. The persistently large gap between parallel and official market exchange rates suggests that the dinar remains considerably overvalued. In addition, interest rates were increased by an average of two percentage points in May 1989 and an additional three points a year later. The new regime is subject only to interest rate ceilings, currently in the 14-15 percent range for short term borrowing. However, real interest rates remain close to zero. Nevertheless, the government clearly recognizes the lingering distortions and the need to remove them.

Compared with the recent past, macroeconomic conditions improved substantially in 1989. Higher oil prices—the average price for Algerian crude in 1989 reached US$18.50 versus US$16.20 in 1988—eased import constraints. As a result, GDP expanded a modest 3.3 percent. The current account deficit reached US$1.3 billion, substantially higher than targeted under the adjustment program. Higher food imports were the primary cause, as stocks depleted by the 1988 drought were rebuilt. As a result of fiscal tightening, the budget deficit fell to 2.2 percent of GDP, a large improvement over 1988's 8.5 percent, although significantly higher than the near-balance targeted. In line with the policy framework, money and credit expansion were relatively controlled. Money, broadly defined, fell from 95 percent of GDP to an estimated 85 percent. As measured by the CPI, official inflation was 9.3 percent, under the 10 percent target.

In summary, reform since 1986 has been pervasive and accelerating. In 1989, higher oil prices and a stronger macroeconomic policy framework helped stabilize economic conditions. Social tension appears to have eased. Although many challenges to economic development remain, political will for continued reform is strong. The Algerian government is fully aware of all the steps required in the transition. The closer relationship with the World Bank and IMF offers Algeria both financial and technical support in its adjustment and reform efforts.

Development Issues

Algeria's underlying development goal is growing, sustainable, and equitably distributed per capita consumption. This implies several proximate goals, both medium-term and short-term. The medium-term goals aim to raise economic efficiency by decentralizing economic decision-making, freeing prices, and pursuing coordinated sectoral policies. The shorter-term goals aim at macroeconomic adjustment to remove imbalances, control inflation, and retain external financing options.

Medium-term proximate goals are three. First, sustain satisfactory GDP growth with reasonable investment and import ratios. Second, reverse the tide of mounting structural unemployment by reorienting production toward labor-intensive techniques and reducing wage rigidities. Third, reduce the economy's dependence on hydrocarbons by strengthening nontraditional exports.

To achieve these medium-term goals, a number of macroeconomic policy actions are required. Incentive reform must be completed such that prices, including real interest rates, real wages, and the real exchange rate, come to reflect true scarcity values. Institutional reform must be completed to ensure that economic units, increasingly private agents, can freely respond to market signals. Renewed growth, bolstered by reform-induced increases in economic efficiency, together with flexible real wages, will help alleviate unemployment and increase per capita consumption. Rising employment and per capita consumption will, in turn, make fiscal and monetary restraint—essential to controlling inflation—easier to achieve. In addition, real exchange rate adjustment will promote non-hydrocarbon exports.

Over the medium term, sound sector-specific policies are necessary to complement macroeconomic initiatives. For example, promoting private enterprise in labor-intensive sectors such as distribution and light industry will remove critical production bottlenecks and absorb labor. Developing comprehensive environmental policies will conserve crucial natural resources, e.g., water. Improving the quality of education will provide the skilled workers and competent managers needed to sustain economic growth.

In the shorter term, two goals stand out. The first is to persist with the adjustment effort to reduce Treasury borrowing requirements and growth in monetary aggregates. This is essential to remove current macroeconomic imbalances and keep inflation low during the next stage of reform. In parallel, however, disadvantaged groups must be protected through selective subsidies on essential goods. The second goal is to restore growth while attaining external balance and preserving external financing options. This requires maximum efficiency in import use through movement toward market-oriented foreign exchange allocation. It also requires comprehensive debt management to maintain creditor confidence in Algeria.

ALGERIA

Mid-1988 Population (mils.)	23.7
1988 Per Capita GNP in US$:	2,205

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1973	*1980*	*1986*	*1987*	*1988*	*1989*	*65-73*	*73-80*	*80-88*	*1988*	*1989*
Gross Domestic Product, c.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	8.1	3.5	-3.8	2.9
Net Indirect Taxes	5.9	6.7	8.4	8.2	7.9	8.0	..	..	..	..	..
Agriculture	7.9	8.0	11.8	12.9	12.6	13.2	..	8.3	5.6	-5.1	12.5
Industry	46.1	53.8	43.1	43.5	43.2	43.2	..	8.6	4.0	-0.7	-0.2
(of which Manufacturing)	13.8	8.6	12.4	11.8	12.0	10.9	..	10.9	6.1	-1.7	-2.3
Services	40.1	31.6	36.6	35.5	36.3	35.6	..	0.1	0.0	-5.8	3.8
Resource Balance	-6.3	4.0	-3.5	1.9	-0.7	0.3	..	..	..	..	..
Exports of GNFS	25.3	34.3	14.6	15.3	15.9	21.3	..	3.2	2.3	-1.6	7.8
Imports of GNFS	31.6	30.4	18.1	13.5	16.6	21.1	..	11.2	-7.3	-8.5	13.7
Total Expenditures	106.3	96.0	103.5	98.1	100.7	99.7	..	10.0	1.4	-4.8	3.7
Total Consumption	66.0	56.9	70.5	66.7	69.4	68.9	..	9.7	2.6	-4.5	5.6
Private Consumption	51.4	43.2	54.0	50.8	53.3	53.9	..	9.7	1.9	-6.2	9.6
General Government	14.5	13.8	16.5	15.9	16.1	15.0	..	9.8	4.9	1.1	-1.2
Gross Domestic Investment	40.3	39.1	33.0	31.4	31.3	30.8	..	10.4	-0.8	-5.4	-0.6
Fixed Investment	35.9	33.8	33.9	31.2	31.3	30.5	..	10.5	-0.7	-5.4	-0.6
Changes in Stock	4.4	5.3	-0.9	0.2	0.0	0.3	..	..	..	..	..
Gross Domestic Savings	34.0	43.1	29.5	33.3	30.6	31.1	..	11.4	-1.4	-12.6	1.6
Net Factor Income	-0.7	-2.8	-2.4	-2.5	-3.9	-4.0	..	..	..	..	..
Net Current Transfers	2.6	0.6	1.2	0.8	0.7	1.1	..	..	..	..	..
Gross National Savings	35.9	40.8	28.4	31.5	27.4	28.1	..	10.3	-1.6	-16.2	-1.0

In millions of LCU's (at constant 1987 prices)	*1973*	*1980*	*1986*	*1987*	*1988*	*1989*					
Gross Domestic Product	130,545	226,829	301,614	296,966	285,685	294,100	..	8.1	3.5	-3.8	2.9
Capacity to Import	21,571	70,260	43,507	45,539	34,884	42,065	..	12.7	-8.4	-23.4	20.6
Terms of Trade Adjustment	-8,462	30,377	-46	0	-9,937	-6,269	..	..	..	..	..
Gross Domestic Income	122,084	257,206	301,569	296,966	275,747	287,832	..	10.2	1.2	-7.1	4.4
Gross National Product	129,751	222,231	296,562	291,690	277,715	282,225	..	7.8	3.5	-4.8	1.6
Gross National Income	121,289	252,608	296,516	291,690	267,777	275,956	..	9.9	1.2	-8.2	3.1

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*65-73*	*73-80*	*80-88*	*1988*	*1989*
Consumer Prices (IFS 64)	53.5	82.8	93.0	100.0	105.9	113.8	..	11.0	8.8	5.9	7.5
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	71.6	95.0	93.2	100.0	107.5	122.1	..	12.9	4.4	7.5	13.6
Implicit Expenditure Deflator	61.6	86.0	93.9	100.0	111.5	124.5	..	10.7	7.2	11.5	11.7

D. Other Indicators

Growth Rates (% p.a.)	*65-73*	*73-80*	*80-88*	
Population	..	3.1	3.1	
Labor Force	..	..	4.2	
Gross National Income p.c.	..	9.9	1.2	
Private Consumption p.c.	..	9.7	1.9	
Import Elasticity:				
Imports (G+NFS) / GDP mp	1.3	1.4	-1.3	
Marginal Savings Rates:				
Gross National Savings	41.5	48.4	0.2	
Gross Domestic Savings	46.5	50.9	-0.7	
ICOR (period averages)	0.8	5.8	15.2	
Share of Total Labor Force in:	*1973*	*1980*	*1987*	*1988*
0.0				
Agriculture	40.1	30.7	25.2	24.7
Industry	20.0	28.5	29.9	29.7
Services	39.9	40.8	44.9	45.6
Total	100.0	100.0	100.0	100.0

1/ All EIT constant price figures are prices. Therefore, growth rates may not matc those based on 1980 prices.

E. Merchandise Exports	Volume Index (1987=100) 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
Food	274.7	167.1	73.4	100.0	85.2	101.7	120	56	26	30	30	34
Crude oil	297.9	126.7	110.2	100.0	89.2	110.3	9,689	3,409	1,511	1,718	1,340	1,894
Condensate	24.9	82.3	88.1	100.0	90.6	102.6	1,315	3,050	1,613	2,383	1,744	2,535
Total Refined Product	42.6	87.6	101.0	100.0	108.2	99.6	1,967	3,209	2,019	2,416	2,200	2,371
Gas	24.9	84.7	81.6	100.0	101.7	114.8	786	3,056	2,136	2,014	2,069	2,296
Manufactures	9.1	92.1	36.3	100.0	433.8	386.9	3	25	12	35	164	146
Other Exports	100.2	147.5	118.9	100.0	141.1	126.5	120	170	161	148	224	200
Total Exports, FOB	85.5	94.5	94.8	100.0	100.0	107.6	14000.2	12975.0	7477.2	8745.0	7770.6	9475.9
F. Merchandise Imports												
Food	88.1	125.9	100.7	100.0	110.4	173.6	1,992	2,181	1,852	1,546	2,018	2,976
POL and Other Energy	90.9	73.9	215.9	100.0	133.3	73.7	259	184	274	161	169	113
Other Consumer Goods	213.7	160.3	142.1	100.0	79.3	88.0	1,785	1,283	1,336	1,031	877	969
Other Intermed. Goods	167.9	166.3	131.1	100.0	78.1	83.8	3,304	3,138	2,904	2,429	2,035	2,175
Other Int. Goods	148.3	151.5	125.3	100.0	94.9	106.1	3,198	3,057	2,861	2,462	2,575	2,875
Total Merch. Imports, CIF	149.9	150.6	126.4	100.0	91.4	109.5	10,539	9,843	9,228	7,629	7,674	9,108

G. Terms of Trade (1987=100)	1980	1985	1986	1987	1988	1989
Export Price Index	187.3	157.1	90.2	100.0	88.9	100.7
Import Price Index	92.1	85.7	95.7	100.0	110.1	109.0
Terms of Trade	203.3	183.3	94.2	100.0	80.8	92.4

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & Services	14,257	13,656	8,697	9,694	8,162	10,068
Merchandise (FOB)	13,652	13,040	8,066	9,049	7,626	9,476
Non-factor services	606	616	631	645	536	591
Imports of Goods & Services	13,060	11,624	10,222	8,490	8,543	9,936
Merchandise (fob)	9,596	8,821	7,889	6,637	6,688	8,188
Non-factor services	3,464	2,803	2,332	1,853	1,854	1,748
Resource Balance	1,197	2,032	-1,524	1,204	-381	131
Net Factor Income	-1,198	-1,348	-1,429	-1,536	-2,012	-1,906
(interest per DRS) 1/	1,552	1,537	1,600	1,644	2,084	1,958
Net Current Transfers	243	331	724	473	354	519
(workers' remittances)	334	263	310	434	332	355
Curr. A/C Bal. before Off. Transf.	242	1,014	-2,230	141	-2,040	-1,255
Net Official Transfers	0	0	0	0	0	0
Curr. A/C Bal. after Off. Transf.	242	1,014	-2,230	141	-2,040	-1,255
Long Term Capital Inflow	899	-36	364	21	969	357
Direct Investment	316	-87	-64	-109	-48	-59
Net LT Loans (DRS data)	916	288	881	732	1,045	416
Other LT inflows (Net)	-333	-237	-453	-602	-29	0
Total Other Items (Net)	239	43	383	-438	334	250
Net Short-term Capital	392	103	1,290	489	-2,020	0
Capital Flows N.E.I.	-179	-55	-913	-939	2,332	250
Errors and Omissions	26	-5	6	12	22	0
Changes in Net Reserves 2/	1,379	1,021	-1,483	-276	-736	-649
Net Credit from IMF	0	0	0	0	0	584
Other Reserve Changes	1,379	1,021	-1,483	-276	-736	-65
As shares of GDP:						
Resource Balance	2.8	3.6	-2.5	2.0	-0.7	0.3
Interest Payments 1/	3.7	2.7	2.7	2.7	4.0	4.1
Current Account Balance	0.6	1.8	-3.7	0.2	-3.9	-2.7
Memorandum items:						
Internat'l Reserves	0	0	0	0	0	0
Reserves incl. Gold	7,062	4,644	3,841	4,341	3,189	3,078
Official X-Rate (LCU/US$)	3.84	5.03	4.70	4.85	5.91	7.61
Index Real eff.X-R Base 80	100.00	143.74	132.86	117.14	96.97	83.03
GDP (millions,current US$)	42,347	56,475	59,792	61,234	51,899	47,197

1): DRS interest payments including short term debt.
2): Change in net reserve(-=loss)

I.Central Government Budget	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1985	1986	1987	1988	1989
Current Receipts	37.7	38.2	32.9	31.3	30.4	32.4	9.6	-14.9	0.6	0.5	24.4
Current Expenditures	17.0	18.9	22.6	22.0	24.8	21.6	-2.8	-18.4	-2.8	-16.4	-1.6
Current Budget Balance	20.7	19.3	10.2	9.3	5.6	10.8	17.2	-47.6	-4.3	-37.2	125.6
Capital Expenditures	29.3	29.3	22.7	17.0	20.1	15.0	18.3	-23.1	-20.8	22.0	-12.5
Changes in Arrears	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-8.5	-10.0	-12.5	-7.8	-14.5	-4.2	-20.4	-24.3	34.3	-92.4	66.1
Offical Capital Grants						..	..	..	..	..	..
External Borrowing (net)	-0.1	0.0	0.0	0.0	-0.1		..	..	..	..	..
Dom. Non-Bank Financing	2.0	5.3	0.1	0.1	4.8	0.8	1142.8	-98.3	43.9	3939.8	-80.3
Domestic Bank Financing	6.6	4.7	12.4	7.6	9.6	3.4	-40.6	162.7	-34.9	30.4	-59.1

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guaranteed LT	916	288	881	732	1,045	416	17,052	16,541	19,596	23,303	23,041	23,101
Official Creditors	370	-170	-46	242	336	305	2,810	3,159	3,565	4,424	4,603	4,842
Multilateral	12	41	210	80	202	361	285	583	926	1,203	1,308	1,664
of which IBRD	26	106	87	50	58	240	253	479	693	924	895	1,135
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	358	-211	-256	163	134	-57	2,525	2,577	2,640	3,221	3,296	3,178
Private Creditors	546	458	927	490	710	111	14,242	13,382	16,031	18,879	18,437	18,259
Suppliers	65	-551	-665	-379	-252	-232	3,776	2,486	2,187	2,143	1,765	1,464
Financial Markets	-36	174	1,358	55	-280	297	5,556	4,271	5,888	6,518	6,169	6,159
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total Long Term Debt	916	288	881	732	1,045	416	17,052	16,541	19,596	23,303	23,041	23,101
IMF Net Credit	0	0	0	0	0	584	0	0	0	0	0	584
Net Short-Term Capital	392	103	1,290	489	-2,020	0	2,325	1,862	3,152	3,641	1,621	1,621
Total incl. IMF & Net ST	1,308	391	2,171	1,221	-975	1,000	19,377	18,403	22,748	26,944	24,662	25,306

Bank and IDA ratios:	1980	1985	1986	1987	1988	1989
Share of Total LT DOD						
1. IBRD as % of Total	1.48	2.90	3.54	3.97	3.89	4.91
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	1.48	2.90	3.54	3.97	3.89	4.91
Share of Total LT DSR						
1. IBRD as % of Total	0.99	1.42	1.88	2.62	2.93	2.82
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	0.99	1.42	1.88	2.62	2.93	2.82
DOD to Exports Ratios:						
1. Long-Term Debt/Exports:1/	113.96	117.24	213.49	227.62	269.00	220.54
2. IMF Credit/Exports	0.00	0.00	0.00	0.00	0.00	5.58
3. Short-Term Debt/Exports	15.54	13.20	34.34	35.56	18.93	15.47
4. LT+IMF+ST/Exports	129.49	130.44	247.83	263.19	287.93	241.59
DOD to GDP Ratios:						
1. Long-Term Debt/GDP	40.27	29.29	32.77	38.06	44.39	48.95
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	0.00	1.24
3. Short-Term Debt/GDP	5.49	3.30	5.27	5.95	3.12	3.43
4. LT+IMF+ST/GDP	45.76	32.59	38.05	44.00	47.52	53.62
Debt Service/Exports:1/						
1. Public & Guaranteed LT	26.18	35.89	56.33	52.71	73.06	67.57
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total LT Debt Service	26.18	35.89	56.33	52.71	73.06	67.57
4. IMF Repurchases +S Charge						
5. Interest only on ST Debt	0.77	0.88	0.38	0.70	3.24	1.08
6. Total (LT+IMF+ST Int.)	26.95	36.77	56.70	53.41	76.30	68.65

Notes:

Data onEconomic Indicators tables should f ollow the definitions and the concepts ofthe Standard Tab les and Standard Attachments. The indicators should include data thro ugh themost recently completed calendar year (or fiscal year in the case of fisca l year countries). Staff estimates maybe used if final or preliminaryactualsare not yet avai lable. The use of estimates and prelimin ary figures should be indicated by:
p = preliminary data

Angola

Angola is the third largest country south of the Sahara, with a population of about 10 million, and a low population density of 7.6 inhabitants per square kilometer. The population is growing at an average rate of around 2.7 percent per year and the proportion of the urban population has been increasing even more rapidly, particularly due to the continuing civil war. The country is very rich in natural resources. The abundance of arable land and the diversified climatic conditions provide favorable conditions for extensive development of a wide variety of agricultural crops of tropical and temperate regions (cotton, coffee, sugar, tropical fruits, maize) as well as livestock. There are also abundant fishing and mineral resources (especially diamonds). Petroleum reserves are extensive and the production and export of oil is presently the mainstay of the economy. The energy and irrigation potential of the rivers is considerable. Infrastructure in the energy, transportation, urban and communication sectors was fairly well developed by African standards, but it has deteriorated substantially in recent years because of the war and deferred maintenance.

The development of the Angolan economy under the Portuguese colonial regime accelerated considerably in the post-World War II period. It was stimulated initially by a coffee boom, which made Angola one of the world's four main coffee exporters by 1974. During the sixties and up to the end of the colonial period in 1974, GDP grew by about seven percent per year in real terms. The most spectacular development was that of oil production, which started in the late 1950s and had reached 144,000 barrels per day in 1973. The favorable economic opportunities attracted thousands of Portuguese settlers, whose number increased from 40,000 in 1940 to 340,000 in 1974. A significant proportion of the rural population was employed in the plantations, mines and factories either on a voluntary basis (at very low wages), or under a system of forced labor, which was abolished only in 1961. However, the vast majority of the Angolan population continued to live in poverty and social indicators remained extremely low.

The Economic Crisis since Independence

Disruptions in the economy created by the armed struggles and the exodus of the Portuguese settlers during the transition to Independence in 1975-76 led to drastic reductions in productive activities. From 1973 to 1978, the decline in output reached 68 percent in coffee, from 80 percent to 98 percent in several other agricultural crops, 72 percent in gross manufacturing production and 85 percent in diamonds. In most sectors, output has remained far below levels reached during the colonial period. Angola, which before Independence was an important net exporter of agricultural products, has in recent years been increasingly dependent on food imports (and food aid) to supply its urban population. There are severe shortages of essential consumer goods and services both in rural areas and in the cities. The capacity utilization of manufacturing industries has been badly affected by the lack of inputs, of spare parts and of maintenance services. The oil industry, an economic enclave, has been the only important exception to the general decline of economic activity; by early 1989 it had reached about 450,000 barrels per day.

The serious difficulties and decline experienced in productive activities are explained largely by three factors. First, the war, in which the government has been involved during the entire post-Independence period against UNITA guerrillas and against repeated South African invasions, has created insecurity in many areas of the country (probably 80 to 90 percent of the territory). The war has forced the exodus of more than 600,000 people into the cities, and has destroyed important economic and social infrastructure as well as productive units (power plants, electric transmission lines, mines, manufacturing plants, coffee plantations, bridges, railways, health and education facilities, etc.). It has disrupted internal transportation, imposed a heavy burden on the budget (with defense accounting for more than 40 percent of government expenditure), absorbed a large proportion of the limited supply of technicians and skilled manpower, and created enormous suffering and deprivation among the population.

The second factor is the massive exodus at independence of about 300,000 Portuguese settlers (90 percent of the total) who held practically all administrative, managerial and skilled jobs. This exodus created chaos in the economy. Few Angolans had the professional qualifications to run the enterprises which were abandoned or to fill the jobs which had been left. In spite of the progress made by Angola in education, the scarcity of trained human resources continues to be one of the major constraints on economic development.

The third factor is the inefficient economic management and inadequate economic policies. As a result of these deficiencies, rent-seeking activities are widespread. Organizational and policy shortcomings have contributed significantly to the decline in aggregate production, scarce consumer goods and inputs for industry, and distortions in the distribution of income. Without the contribution of expanding oil production, the economic crisis in Angola would have been far more serious. Oil export revenues, comprising about 93 percent of total exports, provide the foreign currency resources for imports of war material, inputs for industry, food for the urban population, and other consumer goods. However, the dualistic development of the economy has been compounded by extraordinarily rigid economic management and policies.

Economic Management and Policies

The economy has been run essentially by administrative decisions. The market has not been allowed to play a significant role. Prices have been maintained at artificially low levels. The exchange rate has been grossly overvalued. The budget deficit has fuelled inflation. Distortions in relative prices have made economic calculations almost impossible. Lack of discipline is a serious problem at all levels of public administration and enterprises.

Given the significant dependence of the Angolan economy on imports, foreign exchange policy has had a far stronger influence on levels of consumption and production that any other government policy. The exchange rate has been pegged to the dollar and maintained at 29.92 Kz per US$ without any changes since 1975. Foreign exchange is allocated administratively on the basis of an annual foreign exchange budget. Foreign oil companies and other enclave enterprises operate outside of the foreign exchange allocation process. Exchange rates prevailing in the parallel markets are about 100 times the official rate.

The government has controlled practically all prices of goods and services, which has been a major cause of the persistent difficulties in the economy. There has been excessive rigidity in the levels of controlled prices. Some prices have not been changed since Independence. The price adjustments which have taken place were extremely modest when compared with increases in the nominal purchasing power of the population. As a consequence of the price policies, the production of many goods has been discouraged, relative prices have been severely distorted, waste in the consumption of some goods has been stimulated, and very wide gaps have appeared between the demand and the supply of practically all goods and services in official markets. As a result, the government introduced the payment of wages/incomes in buying rights to formal sector workers. Widespread scarcity of practically all goods and services led to the rapid development of parallel markets which at present are quite important and officially tolerated. Manufacturing enterprises sell part of their production to their own employees, who in turn trade these goods in the parallel market for consumption goods which they need. The system of controlled prices and of administered distribution of goods implies that there is no competition among enterprises operating in the official market.

Foreign trade and domestic trade activities have been constrained by rigid and pervasive government regulations and restrictions and by the predominance of inefficient public enterprises in imports and exports, in distribution, in wholesaling and in the retail network. There are some private enterprises, but their role in providing competition to the public sector is very weak because of the administrative allocation of imports, fixed profit margins imposed by the government, and constraints in getting more merchandise or diversifying the range of products sold. The level of agricultural production has been particularly affected by shortcomings of the trade system. The problems created by the disappearance of the bush traders are yet to be solved. During the colonial period, bush traders, by providing consumer goods in exchange for agricultural products, played an important role in the marketing and distribution system.

Budgetary policy has played an increasing role in the economy, reflecting the growth of the government. A growing part of the official economy nearly—two thirds in 1986—has been financed through the government budget. The availability of oil revenues, which in recent years have provided between 40 percent and 60 percent of total government income was a major factor permitting the rapid rise (although with fluctuations) of public spending. Together with rising non-oil taxes, those resources have supported the growth of military expenditures, which doubled between 1980 and 1986 and which accounted in 1987 for about 50 percent of total recurrent expenditures. In spite of the rapid growth of revenues, the overall budget has consistently been in deficit. In 1989, the budget deficit corresponded to about 25 percent of GDP at official prices, although these figures present serious valuation problems and almost certainly understate the size of the deficit. Since this "cash" deficit has been mainly financed through borrowing from the central bank, it has contributed to the rapid growth of the money supply.

Monetary policy has been largely determined by the borrowing needs of the government and by the fluctuations in the net foreign assets of the National Bank of Angola. Because of the expansion of credit to finance government deficits, the money stock has risen rapidly, although with large year to year fluctuations. In recent years, currency in circulation and individual deposits have grown at about 20 percent a year. This growth in the money supply has aggravated the scarcity of goods in official markets and has fuelled inflation in parallel markets.

Recent Developments

Recognizing that existing economic difficulties are due in large part to inadequate economic policies, the Angolan authorities announced in 1987 an ambitious Program of Economic and Financial Restructuring, usually designated as SEF. In 1988, they prepared a Program of Economic Recovery (PRE) covering the years 1989-90. The authorities have not yet taken the key decisions which are foreseen in the SEF and the PRE in such areas as the liberalization or adjustment of controlled prices, the depreciation of the exchange rate, more effective control of public finances, etc. The announcements already made and the policy guidelines which have been defined suggest, however, that the general thrust of the SEF reforms and of the PRE measures, if adequately implemented, would improve the economic situation and prospects for future growth.

Further work will be needed and is being initiated to formulate the required policy changes with precision and to determine the proper sequence for implementing them. It is clear, however, that the reform program should be oriented toward shifting the efforts which are currently devoted to rent-seeking activities to genuinely productive activities, and should include decisive steps involving such as these:

a. A very substantial adjustment of the exchange rate and a subsequent active exchange rate policy.

b. Liberalization of a high proportion of administered prices (extending beyond agricultural products, many of which have already been liberalized).

c. Substantial adjustments of those prices that will continue to be controlled.

d. Introduction of other incentives to stimulate exports of agricultural goods.

e. Adoption of interim solutions to reduce the rigidity of the administrative allocation of foreign exchange for some key imports (spare parts, inputs for agriculture, etc.).

f. Increases in tariff duties, elimination of a large number of tariff exemptions and increases in some indirect taxes.

g. Remonetization and adjustments in wages and salaries (as far as possible combined with a reduction in privileged access to goods and services at official prices).

h. Restructuring of the public enterprise sector which should lead to the closing of those enterprises which are not viable, the privatization of others, and the financial restructuring of strategic enterprises that will remain in public hands.

i. Improvements in the legal framework for private enterprises and the introduction of incentives for the development of small-scale enterprises, especially in the areas of trading, truck transportation, repair services and construction.

Growth Prospects

Medium and longer term growth prospects in Angola depend on four factors. First, the conclusion of the war, which now claims lives and financial resources and prevents activities in many areas. Second, the speedy rehabilitation of the economic and social infrastructure, heavily damaged after fifteen years of war and lack of maintenance. Third, the speed and success of policy reforms. Fourth, a gradual resolution of the problem of skilled manpower shortages to facilitate longer term development. Angola, as indicated above, is rich in natural resources and under normal circumstances and appropriate government policies, its potential for growth is tremendous. Substantial growth will be necessary simply to regain past income and consumption levels.

There are several uncertainties surrounding the growth prospects. First of all, the peace process has started but it might take some time for it to be finalized. Moreover, if a political agreement is reached and the war is officially over, security in the countryside might not be achieved automatically. Secondly, rehabilitation of the infrastructure will take many years and require substantial assistance from the donor community. A comprehensive assessment of the damages and the priorities for rehabilitation is needed. Thirdly, the government has expressed its desire to implement more appropriate economic policies. The SEF program is proof of that. However, aside from a large number of new laws, very little has been effectively done so far. Even if the government proceeds expeditiously, full implementation of appropriate policies will be difficult given the shortage of skilled personnel to carry them out. Hence, external technical assistance is expected to play a decisive role, and this has proved problematic in many countries. Finally, the resolution of skilled manpower shortages will necessarily be a gradual process since training cannot be instantaneous and external assistance will be limited by the internal absorptive capacity. Consequently, given these uncertainties, coupled with the limited knowledge of the country at this stage, it is difficult to make an accurate assessment of growth prospects. However, if peace is achieved and the government initiates the implementation of the reform program, it could be conjectured that an annual growth rate of 4 to 5 percent is feasable.

External Debt

Angola's external debt has been provisionally estimated at US$6.9 billion. According to very preliminary information, this debt includes around US$3.0 billion to the Soviet Union which has been rescheduled at very favorable terms. Service of the rest, US$4 billion, is heavily concentrated over the next three years and the debt service ratio would amount to about 33 percent. In addition, several creditors have secured their debts in oil exports and this reduces the government's ability for refinancing. Although the debt represents a very difficult problem in the short term, with some debt relief, expected export levels appear high enough to finance most of the import needs of Angola in the medium term.

Improving Angola's debt situation over the longer term will depend on three factors. First, the conditions for sustainable economic growth will have to be restored. For that, the country needs peace and the implementation of economic and institutional reform measures. Second, the country will require debt relief, which has been started with the rescheduling of about US$400 million granted by the Paris Club in July, 1989. The Paris Club made it clear that future arrangements will require some form of agreement with the IMF. Third, assistance from the international community, mainly for technical assistance and infrastructure rehabilitation, will be crucial during the next phase of reconstruction.

ANGOLA

Mid-1988 Population (mils.)	9
1988 Per Capita GNP in US$:	..

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989(e)*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	3.1	-7.0	3.9	13.9 1/	1.3
Net Indirect Taxes	6.1	8.1	19.6	..	..	..	..	..	..	..	..
Agriculture	47.3	34.1	34.7	..	..	..	..	..	..	..	..
Industry	6.8	19.9	24.3	..	..	..	..	..	..	..	..
(of which Manufacturing)	3.8	6.5	2.1	..	..	..	..	..	..	..	..
Services	39.8	38.0	21.4	..	..	..	..	..	..	..	..
Resource Balance	2.4	8.6	21.8	..	..	..	..	..	..	..	..
Exports of GNFS	20.9	30.4	51.5	..	..	..	..	..	..	..	..
Imports of GNFS	18.5	21.8	29.7	..	..	..	..	..	..	..	..
Total Expenditures	97.6	91.4	78.2	..	..	..	..	..	..	..	..
Total Consumption	88.0	79.9	69.6	..	..	..	..	..	..	..	..
Private Consumption	76.7	65.8	48.3	..	..	..	..	..	..	..	..
General Government	11.3	14.1	21.3	..	..	..	..	..	..	..	..
Gross Domestic Investment	9.6	11.5	8.6	..	..	..	..	..	..	..	..
Fixed Investment	9.6	11.5	8.6	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	12.0	20.1	30.4	..	..	..	..	..	..	..	..
Net Factor Income	0.0	0.0	0.0	..	..	..	..	..	..	..	..
Net Current Transfers	0.0	0.0	0.0	0.5	..	..	..	..	..	..	..
Gross National Saving	12.0	20.1	30.4	..	..	..	..	..	..	..	..

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	299	393	238	312	..	..	3.1	-7.0	3.9	13.9 1/	1.3
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	..	..	..	..	..	..	..	..	..	..	..
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	79.2	105.3	95.8	100.0	..	..	6.9	22.9	3.4	..	..
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.0	3.5	2.5
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	45.8	4.3	..
Gross Domestic Saving	45.8	4.3	..
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	79.1	76.5	73.8	..
Industry	8.1	8.8	9.6	..
Services	12.8	14.7	16.7	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
							..					
Oil (crude)	..	..	..	..	..	..	..	1,906	1,164	2,039	2,179	2,657
Ref. Pet. Prod. and Gas	..	..	..	..	..	..	..	205	62	100	110	83
Diamonds	..	..	..	..	..	..	..	74	8	98	183	229
Coffee	..	..	..	..	..	..	..	55	53	35	18	12
Residual	..	..	..	..	..	..	..	62	59	50	1	32
Total Exports FOB	..	..	..	..	..	..	..	2,302	1,346	2,322	2,491	3,013
F. Merchandise Imports 2/												
Food	..	..	..	..	..	..	..	375	194	194	294	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	212	97	64	114	..
Other Intermed. Goods	..	..	..	..	..	..	..	255	137	77	174	..
Capital goods	..	..	..	..	..	..	..	388	267	172	262	..
Total Imports CIF	..	..	..	..	..	..	..	..	..	..	..	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	..	2,409	1,450	2,409	2,605	3,150
Merchandise (FOB)	..	2,302	1,346	2,322	2,491	3,013
Non-Factor Services	..	107	104	87	114	137
Imports of Goods & NFS	..	2,105	1,744	1,795	2,570	2,416
Merchandise (FOB)	..	1,401	1,086	1,303	1,372	1,273
Non-Factor Services	..	704	658	492	1,198	1,143
Resource Balance	..	304	-294	614	35	734
Net Factor Income	..	-129	-150	-218	-538	-751
(interest per DRS)	..	..	..	..	..	..
Net Current Transfers	..	21	141	52	32	-4
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	..	196	-303	448	-471	-21
Net Official Transfers	..	0	0	0	0	0
Curr. A/C Bal. after Off. Transf.	..	196	-303	448	-471	-21
Long-Term Capital Inflow	..	454	249	55	-199	-235
Direct Investment	..	278	234	119	131	200
Net LT Loans (DRS data)	..	176	15	-64	-330	-435
Other LT Inflow (Net)	..	..	..	..	..	..
Total Other Items (net)	..	-629	13	-486	719	250
Net Short Term Capital and E&O	0	-655	-205	-835	-255	-753
Capital Flows N.E.I.	..	0	0	0	0	0
Acc. Arrears and Debt Resch.	..	26	218	349	974	1,003
Changes in Net Reserves	..	-21	41	-17	-49	6
Net Credit from the IMF	..	..	..	..	..	..
Other Reserves Changes	..	-21	41	-17	-49	6
As Share of GDP:						
Resource Balance	..	5.5	-5.9	9.7	0.5	9.9
Interest Payments	..	..	..	..	..	..
Current Account Balance	..	3.6	-6.1	7.1	-7.1	-0.3
Memorandum Items:						
Reserves excl. Gold (mil. US$)	..	..	..	..	..	..
Reserves Incl. Gold (mil. US$)	..	..	..	..	..	..
Official X-Rate (LCUs/US$)	29.92	29.92	29.92	29.92	29.92	29.92
Index Real Eff. X-R Base 1980	..	..	..	..	..	..
GDP (millions of current US$)	6,307	5,514	4,996	6,326	6,668	7,416

2/ Non- military imports.

Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-85	1986	1987	1988	1989
Total Revenue	..	47.6	47.6	34.0	31.6	29.2	..	..	..	..	..
Current Expenditure	..	49.2	50.6	40.4	51.8	45.9	..	..	..	..	..
Current Budget Balance	..	-1.6	-3.0	-6.4	-20.2	-16.7	..	..	..	..	..
Capital Receipts		..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	5.6	7.0	5.8	8.2	8.1	..	..	..	..	..
Adjustments							..	..	..	..	..
Overall Deficit	..	-7.2	-10.0	-12.2	-28.4	-24.8	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	..	..	..	..	5.1	3.2	..	..	..	..	..
Domestic Non-Bank Financing 3/	..	..	..	..	23.3	21.5	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	..	..	..	..	..	..	..	..	..	..	6,465	6,950
Official Creditors	..	..	..	..	..	..	..	..	..	..	..	..
Multilateral	..	..	..	..	..	..	..	..	..	..	46	49
of which IBRD	..	..	..	..	..	..	..	..	..	..	..	..
of which IDA	..	..	..	..	..	..	..	..	..	..	..	..
Bilateral	..	..	..	..	..	..	..	..	..	..	..	..
Private Creditors	..	..	..	..	..	..	..	..	..	..	..	..
Suppliers	..	..	..	..	..	..	..	..	..	..	..	..
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	..	..	..	..	..	..	..	..	..	..	..	..
Total LT	..	..	..	..	..	..	..	..	..	..	6,465	6,950
IMF Credit	..	..	..	..	..	..	..	..	..	..	..	..
Net Short-Term Capital	..	-655	-205	-835	-255	-753	..	..	..	..	..	..
Total incl. IMF & Net ST	..	..	..	..	..	..	..	..	..	..	..	..

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	..	..	..	..	..	..
2. IDA as % of Total	..	..	..	..	..	..
3. IBRD+IDA as % of Total	..	..	..	..	..	..
Share of LT Debt Service						
1. IBRD as % of Total	..	..	..	..	..	..
2. IDA as % of Total	..	..	..	..	..	..
3. IBRD+IDA as % of Total	..	..	..	..	..	..
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	..	..	..	248.20	220.60
2. IMF Credit/Exports	..	..	..	..	..	..
3. Short-Term Debt/Exports	..	..	..	..	..	..
4. LT+IMF+ST DOD/Exports	..	..	..	..	..	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	..	..	..	..	96.96	93.72
2. IMF Credit/GDP	..	..	..	..	..	..
3. Short-Term Debt/GDP	..	..	..	..	..	..
4. LT+IMF+ST DOD/GDP	..	..	..	..	..	..
Debt Service /Exports						
1. Public & Guaranteed LT	..	..	..	..	46.10	41.97
2. Private Non-guaranteed LT	..	..	..	..	..	..
3. Total Long-Term Debt Service	..	..	..	..	..	..
4. IMF Repurchases+Serv. Chgs.	..	..	..	..	..	..
5. Interest only on ST Debt	..	..	..	..	..	..
6. Total (LT+IMF+ST Int.)	..	..	..	..	..	..

Notes:

3/ Includes Bank financing.

Data onEconomic Indicators tables should f ollow the definitions and the concepts ofthe Standard Tab les and Standard Attachments. The indicators should include data thro ugh themost recently completed calendar year (or fiscal year in the case of fisca l year countries). Staff estimates maybe used if final or preliminaryactualsare not yet avai lable. The use of estimates and prelimin ary figures should be indicated by:

e = esti mated data
p = prel iminarydata

Argentina

Argentina has suffered chronic macroeconomic instability and slow growth since the 1940s. Inconsistent fiscal and monetary policies have contributed to instability, discouraged domestic saving and capital formation, and led to slow growth. Protectionist trade and industrial policies compounded these problems by distorting investment decisions, slowing productivity growth, and hampering the economy's capacity to adjust to fluctuating export earnings from agriculture.

Argentina's macroeconomic instability is rooted in chronic fiscal deficits. The government expanded its direct role in the economy beginning in the late 1940s, progressively increasing its importance as an investor, a source of subsidy for favored activities and interest groups, and as a net borrower of funds. Subsidies took the form of tax exemptions and transfers, often hidden through the financial system. In 1973-83, fiscal deficits ranged from 6-18 percent of GDP. These compelled the state to rely increasingly on external and domestic borrowing and the inflation tax. The external shocks of the early 1980s—increases in world oil prices, slower OECD growth, surging international real interest rates, and declining commodity prices—interacted with high fiscal deficits and other inappropriate domestic policies to plunge Argentina into deep recession in 1981-83.

The Alfonsin administration (December 1983 - July 1989) thus inherited a severely distorted and deeply indebted economy. In December 1983, the external debt was US$45.1 billion, about 70 percent of GDP. The public sector either owed or had assumed most of the external debt. Public sector finances had run out of control in the wake of the costly South Atlantic war, inflation was running at 20 percent a month, and investment was contracting. By 1983, gross investment had fallen to less than 60 percent of the 1978-80 level, and national savings had also declined by more than half. The increasingly heavy weight of external debt reversed the traditional pattern of resource flows as the country became a sustained net exporter of capital after 1981. Debt service entailed additional fiscal expenditures that strained public finances further, creating a severe internal transfer problem that has lasted to the present.

The highest priority of economic policy was regaining control over public finances to restore macroeconomic stability. Over its first fourteen months, however, the Alfonsin government's attempt to revive growth was futile. By mid-1985 monthly inflation rates were between 25 and 30 percent, and the authorities were forced to turn their attention to price stabilization. Beginning with the Austral Plan, Alfonsin's economic team made several attempts to stabilize prices through "heterodox" stabilization programs, combining tightened fiscal and monetary policies with wage and price freezes. These programs generally failed after brief periods of apparent success, essentially because the authorities could not sustain the requisite fiscal austerity.

The Plan Primavera

On August 3, 1988, the government announced a new heterodox policy package, the Plan Primavera. The stabilization components included a voluntary price freeze and pre-announced exchange rate devaluations to reduce inertial pressures. It emphasized reductions in demands of the non-financial public sector on domestic savings and central bank credit. The government's fiscal objective was to constrain the combined public sector deficit to the net external borrowing flow the government could reasonably expect to secure, plus a small margin associated with remonetization of the economy.

The Plan Primavera succeeded in reducing inflation in the last quarter of 1988. However, the program began to unravel in December 1988 and January 1989 when wage settlements, following a series of bitterly contested strikes by public sector employees in November-December, came in substantially higher than anticipated in the program. More important, the government was unable to achieve the reduction in the fiscal deficit fundamental to the program. Transfers to the provinces had to be increased over the budgeted levels because provincial spending did not adjust as quickly as anticipated to the new revenue-sharing law. Furthermore, public enterprise price adjustments were kept below the rate of inflation longer than originally planned. The December tax reform was approved with less than half the amount of increased revenues envisaged in the program. Finally, discussions with the IMF and negotiations with commercial banks for new money stalled.

Events outside the authorities' control compounded their difficulties. A widespread drought reduced production and exports and cut hydropower generation. Also, Argentina's presidential campaign caused nervousness in financial markets. An Army unit staged an insurrection in December 1988, and in January there was bloodshed in an attack by left wing groups on an Army installation near Buenos Aires.

Inadequate fiscal adjustment and uncertainty increased the burden on monetary policy. The monetary authorities maintained real interest rates at high levels in the last quarter of 1988 in order to maintain the exchange rate in the range desired to slow inflation. These high rates increased the central bank's quasi-fiscal deficit, however. The uncertainty and continuing imbalances in macroeconomic fundamentals precipitated a run on the austral in January 1989. At first, the central bank reacted by selling over US$900 million in reserves. It tightened monetary policy by requiring additional forced investments and increasing reserve requirements, which raised interest rates still further and increased the central bank's own borrowing requirement. But these measures were not enough. On February 6, the government was forced to cut the parallel exchange rate loose and to end the central bank's dollar auctions. Soon thereafter the exchange rate collapsed.

The government lost control of fiscal and monetary policy by end-March, 1989. Massive portfolio shifts from the austral to dollar-denominated or nonfinancial assets became severe. Meanwhile, inflation (through the Tanzi effect and its effect on reducing real public enterprise prices) and tax evasion drove revenue collections to new lows. The nonfinancial public sector registered a deficit of 12.4 percent of GDP in the second quarter of 1989. Meanwhile, exploding nominal interest rates opened a hole in the central bank accounts and drove the quasi-fiscal deficit to about 16 percent of GDP for the same period. These events propelled the economy into hyperinflation on the eve of the May 14 presidential elections.

The Economic Program of the Menem Administration

On July 9, 1989, the day after assuming office, the Menem administration announced a sweeping reform program intended to reduce the overall public sector's demands on financial markets by decreasing the nonfinancial public sector's deficit. The initial phase of the program comprised a massive devaluation—to A$655 per dollar from A$303—and sharp increases in the prices of public sector goods and services. The authorities then negotiated an agreement with the nation's largest business enterprises, that they would not increase their output prices as long as the exchange rate and public sector prices remained unchanged. Labor unions agreed informally to moderate their claims. This was intended to set a context of stability within which the government could carry out deeper reforms toward more lasting stability.

The government submitted an ambitious legislative program to the Congress, comprising tax reform, authorization to reduce expenditures and subsidies, reduce extra-budgetary transfers to the provinces and to state enterprises, reform of the central bank charter, and authorization to privatize public enterprises. The legislation was passed within a few weeks. The subsidy cuts included suspension of half the costly "industrial promotion" schemes for a six-month period (since renewed for another six months). The tax reform included broadening of the base of the VAT at a 13 percent rate, and a minimum tax of 1 percent on corporate assets. In addition, the government renewed efforts to rebuild its severely eroded tax collection capacity. The Law of the Reform of the State named the national telephone monopoly (ENTel), selected railway lines, highway concessions, Aerolineas Argentinas (the largest airline company), the shipping company, radio and television stations, the power and gas distribution companies, and others as eligible for privatization.

For about four months the program seemed relatively successful. The inflation rate fell sharply. The official exchange rate remained firm, and the parallel rate remained close to it. Interest rates were high just after the announcement of the program, but fell from 15 percent per month to 4.5 percent at the beginning of October. The central bank still had a significant borrowing requirement, but the declining interest rates seemed to indicate that the quasi-fiscal problem could be contained.

Beginning in mid-October, however, progress toward stabilization reversed rapidly. The parallel exchange rate rose suddenly, apparently because depositors had begun to make withdrawals in response to what they considered to be low interest rates. The central bank tightened monetary policy, forcing up interest rates, but this raised its own interest bill and its financing requirement rose sharply. Interest rates came under continuing upward pressure. In mid-November the authorities instituted an emergency tax program in an attempt to offset the rising quasi-fiscal pressure. The Congress also approved the tax reform, scheduling the extension of the value-added tax to all goods to take effect on February 1, 1990. These measures failed to restore immediate stability, however; by early December the parallel exchange rate was 35 percent above the official rate and monthly interest rates were fluctuating in range from 25 to 40 percent.

On December 10, 1989 the authorities attempted to salvage the program by devaluing from A$655 to A$1,000 per dollar. To recover control of the fiscal accounts, they reprogrammed the amortization due on most of the Treasury's outstanding obligations for two years, and announced increases in export taxes. The markets responded, however, by reestablishing almost the same percentage parallel rate premium and interest rates. The economic ministerial team therefore resigned. On December 18 the new economic team announced yet another policy package, including an end to virtually all existing price controls and a floating exchange rate. It also rescinded the export tax increases.

The economy continued to slip out of control, however, because the interest bill on the public sector's overall debt stock continued unabated and because the authorities could offer no credible fiscal program capable of covering it. The exchange rate depreciated, pushing prices up (the price level doubled over the month). Interest rates rose sharply, driving up the quasi-fiscal deficit. Over the New Year weekend, to deal with the spiral of interest rates, the exchange rate and inflation, the authorities carried out their most drastic reform measure: they converted the Treasury and central bank obligations to the commercial banks, along with the bulk of the seven- and fourteen-day time deposits that financed them, into external bonds (BONEX), with ten-year terms yielding LIBOR. Since the BONEX traded at a substantial discount in domestic financing markets, this conversion amounted to a substantial confiscation of private wealth.

The BONEX Plan extinguished almost 50 percent of the money stock, broadly defined. Moreover, it reduced the public sector's quasi-fiscal interest bill, from fluctuating, unstable flows on the order of US$500 million to $600 million per month owed by the central bank to a foreign-exchange flow on the order of US$600 million per year owed by the Treasury. These stabilizing effects must be set against the destabilizing effects. These were, first, to discourage would-be depositors, hence to reduce the willingness to hold money and other financial instruments potentially within the government's reach; and second, to diminish sharply commercial banks' profitability, since they had come to rely on the income spread they earned intermediating the public sector's borrowing requirement.

During the first two months following the BONEX Plan, the price level and exchange rate remained volatile. Prices rose at an average monthly rate of 75 percent in January and February 1990. The exchange rate rose generally. The authorities took two months to work out fundamental details of the BONEX Plan conversion, adding to the uncertainty. Apart from some weak measures announced in the middle of the month, the government presented no fiscal program, and there were widespread fears that the fiscal accounts remained out of control. In the wake of the huge liquidity loss, the central bank set relatively loose monetary conditions in January, allowing the commercial banks leeway to cope with the sudden liquidity cut. In addition it allowed a large number of exceptions from the conversion for various entities holding time deposits, and this diminished the amount of liquidity extinguished by the plan.

Toward the end of January, however, the central bank took a different tack, tightening liquidity severely and, in February, forcing the commercial banks to end overdrafts and reserve deficiencies and requiring them to repay rediscounts. The average monetary base was 16 percent higher in February than in January while prices were 75 percent higher. At the end of February the central bank's tightening drove monthly interbank interest rates to 5,000 percent. Nevertheless, the exchange rate devalued sharply throughout February, following extension of the value-added tax and sharp public enterprise price increases on the first of the month. Financial market participants apparently feared further devaluation, and awaited deeper policy measures. In early February the value-added tax was extended to all goods, and there was a round of public sector price increases; the financial markets apparently sought expenditure cuts.

On March 4 the Economy Ministry announced a wide-ranging fiscal reform program. Its most important measure was a program of public sector employment reduction and a postponement of payments on public sector obligations to suppliers, but it also incorporated other measures whose purpose was to control public expenditure. This announcement reversed market confidence, because it indicated that the government was prepared to carry out a genuine reform of public expenditure. The exchange rate revalued, and continued to revalue in nominal terms throughout March and April. After rising more than 35 percent in the first week of

March, the price rises moderated to single-digit weekly rates for the remainder of the month. The month-over-month April inflation rate was 9.4 percent, a high rate, but nonetheless a strong improvement from the hyperinflationary conditions of the preceding months. The fiscal accounts improved dramatically in March as tax yields improved, real wages fell, and the Olivera-Tanzi effect worked in the Treasury's favor. The Treasury surplus reached 0.9 percent of GDP.

Surprisingly, the monetary authorities were able to issue money to purchase almost US$1.2 billion in foreign exchange during March and April, without causing the currency to devalue. In some degree their purchases were motivated by a determination to prevent further revaluation. The Treasury itself purchased about US$80 million in March and US$130 million in April. The more narrowly defined money supply has recovered to about 3.5 percent of GDP. In the first two weeks of May prices rose about 10 percent and the exchange rate devalued from about A$4,600 to about A$5,200 per dollar. This may indicate that the current round of remonetization may be approaching its short term limit.

On the strength of the strong Treasury performance since January, the IMF has renegotiated the stand-by program, which was interrupted by the resurgence of hyperinflation in December. If successful, the program would produce an average public sector non-interest surplus—that would enable the public sector to meet its external interest obligations to preferred creditors (BONEX, multilateral institutions, the IMF, bilateral creditors), to increase international reserves, and to initiate some interest payments to commercial banks. The monthly inflation rate would decline to modest increases in the last six months of the year.

Progress on Structural Problems

While the Alfonsin administration bequeathed a deep macroeconomic crisis to its successor, the situation would have been far worse had it not been for the preceding two years of structural reform. In public finance, the adoption of the principle of self-sufficiency in the decentralized spending authorities outside of the central administration—the provinces, the public enterprises, and the social security system—meant that both the 1988 and 1989 budgets were built around clearly defined ceilings on transfers to these entities, for the first time in a decade. Even though these ceilings were partially breached later, they played an important role in reducing the trend of transfers, subjecting them to the budget process, and making them more transparent. This law has framed the debate for subsequent budgets. The Menem government proposes to transfer a broader range of activities to the provincial administration. For example, the central administration will pass the responsibility for public secondary education to the provinces.

The economic legislation has enabled the authorities to limit public expenditure in important areas. An area of particular importance has been the "industrial promotion" subsidy program, under which subsidies amounting to 2-3 percent of GDP have been provided to enterprises that operate in less developed provinces. These expenditures not only fostered inefficiency, they were often misused as a means of tax avoidance and evasion. The Economic Emergency Law suspended half the flow for twelve months, and the government is trying to end the programs entirely against the opposition of the particular interests concerned. To enforce public enterprise austerity, the Economy Ministry has taken on direct control of public enterprise cash flows. This is a temporary arrangement, pending privatization or restructuring of the enterprises. Privatization is proceeding, somewhat more slowly than the government had originally hoped, but it is still likely that the government will sell the national telephone company (ENTel) some time this year.

The government has instituted a significant tax reform. The principal component of the reform was the extension of the value-added tax on a uniform basis to all goods with few exceptions. This reform was successfully implemented in February. The government aims to extend the tax to services within the next few months. To reduce the effects of the collection lag the government has instituted day-to-day tax indexation, although this is considered a temporary expedient. The government is continuing the previous administration's efforts to strengthen Argentina's tax administration.

The government is also making significant progress to reform its state enterprises. The privatization process is proceeding, if somewhat slower than the authorities had originally hoped. The national telecommunications monopoly and the international airline are likely to be sold within the coming months. Private activity is to be permitted in the petroleum sector, hitherto reserved for the national petroleum monopoly. The government is considering reforms of the traditionally inefficient national railways.

In the financial sector, the authorities are working on an ambitious reform of the monetary authority. The objectives are to limit central bank financing to the domestic public and private sectors, to make the central bank functionally independent, to dispose of the central bank's accumulated stock of non-performing assets, to place the central bank on a sound financial footing, to remove trade financing operations from the central bank, and to strengthen bank supervision. The BONEX Plan removed an important obstacle to this reform by eliminating the central bank's interest-bearing debt. The authorities have also begun to address the accumulated problems of the publicly owned banks. The March 4 decree announced an end to retail operations of the National Mortgage Bank (BHN) and a renewed intervention in the National Development Bank (BANADE), with the objective of converting the latter into a second-tier lending institution. The banks owned by provincial governments remain an important problem which the authorities have only begun to address. The outgoing authorities had ended the automatic access of public banks to central bank rediscounts and overdrafts, enforced through the closure of three provincial banks in late 1987 and early 1988. Moreover, rediscounts were sharply curtailed beginning in late 1987.

Trade Reform and Industrial Policy

The Menem government has liberalized trade further since July 1989. On the export side, the government has altered its recently published timetable for the gradual removal of export taxes with the 5 percent surcharge on exports designed to last for four months, announced on March 4; those for industry would be removed around mid-1990 on a product-weighted basis. Regarding imports, the government has reduced the domestic production coverage of quantitative restrictions rather boldly from 18 percent to less than 9 percent; it has already reduced the maximum tariff to 24 percent, increased the minimum to 10 percent, and lowered tariffs from a production-weighted average of 28 percent in late 1989 to about 18 percent. The government has restored the automaticity of imports that was suspended during the hyperinflation, and is considering reducing the advance deposit scheme to 90 days.

Macroeconomic Stability and External Financing

Argentina's medium-term prospects depend heavily on the success of the current macroeconomic stabilization program. If the program succeeds in controlling public sector financing demands, in setting a reasonable degree of price stability, and in reestablishing normal relations with international creditors, the country could return to a growth trajectory consistent with its long-dormant productive potential. Eliminating the structural deficit entails lasting reforms that will provide permanent buoyancy to the tax system, permanent reductions in expenditures, and new institutional arrangements that allow the budgetary processes of the country to work. Without macroeconomic stability, the country will be unable to mobilize domestic saving, and recurrent inflation will deter investment.

Deficit Reduction. The size of the fiscal deficit relative to available finance has been the main source of high and volatile inflation, high real interest rates, and overall instability. A reduction in the combined public sector's structural deficit is a prerequisite of future growth. It is essential that the deficit be permanently and sustainably reduced, without artificial wage compression, without relying on one-time asset sales, and without relying on tax instruments—such as export taxes—that distort prices. The sustainability of the progress is as important as the size of the reduction of the deficit. The public will only hold money and government debt if it perceives the progress to be sustainable.

Elimination of the quasi-fiscal deficit and the bulk of the domestic interest bill on government obligations through the BONEX Plan eliminated an important, and highly volatile, source of fiscal pressure. The price the government paid for this was the loss of access to domestic borrowing, at least for some time to come. This made further fiscal reform all the more important, to ensure that the government's borrowing requirement fell to no more than it could finance externally. The measures of March 4 are a good start but the task remains formidable, particularly as the government budget will be further pressured as it resumes interest payments to external creditors and reduces accumulated arrears.

External Finance. One of the most problematic aspects of the medium-term outlook is the availability of foreign finance. Even with improved trade performance, the amounts required from external creditors will be substantial if the country expects both to grow and to service its external debt over the next five years. Moreover, most banks have provisional reserves against losses on their Argentine portfolio, and they are now all the more reluctant to increase their exposure. Once the new macroeconomic program begins to show enduring success, the government will probably begin serious discussions with commercial banks on a medium-term financing program, including debt reductions.

ARGENTINA

Mid-1988 Population (mils.)	32
1988 Per Capita GNP in US$:	2,570

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rates(% per annum) (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	4.4	2.1	-0.1	-2.7	-3.8
Net Indirect Taxes	8.3	11.3	11.4	11.4	11.4	10.4	..	..	..	..	..
Agriculture	15.3	14.1	7.6	12.9	13.2	12.4	-0.1	1.5	1.4	1.1	-15.6
Industry	38.2	33.5	32.7	30.5	29.8	29.3	5.1	1.5	-0.8	-4.9	-8.5
(of which Manufacturing)	30.6	25.4	22.1	20.8	19.9	19.6	4.6	0.1	-0.2	-7.0	-5.2
Services	38.2	41.1	48.3	45.2	45.6	47.9	5.6	2.6	0.0	-3.1	1.8
Resource Balance	2.8	2.5	-2.2	0.3	3.7	7.0	..	..	..	..	..
Exports of GNFS	8.3	10.1	6.9	10.1	12.0	16.2	2.9	9.1	4.0	18.8	5.3
Imports of GNFS	5.6	7.6	9.0	9.8	8.3	9.2	2.0	11.6	-6.8	-14.5	-2.3
Total Expenditures	97.2	97.2	102.2	99.7	96.3	93.0	4.2	2.5	-1.3	-6.1	-4.8
Total Consumption	77.8	79.2	79.4	83.3	79.9	81.0	3.4	1.9	0.4	-5.6	-1.1
Private Consumption	69.4	67.3	66.2	69.4	69.4	71.0	3.6	1.6	0.4	-2.2	0.5
General Government	8.3	11.8	13.2	13.9	10.5	10.0	2.4	3.7	0.0	-22.7	-11.7
Gross Domestic Investment	19.4	18.0	22.2	16.4	16.4	12.0	6.8	4.3	-7.7	-8.2	-24.0
Fixed Investment	16.7	18.0	20.4	16.6	15.8	11.7	7.1	4.8	-7.4	-13.2	..
Changes in Stocks	2.8	..	1.8	-0.2	0.5	0.3	..	..	..	..	..
Gross Domestic Saving	22.2	20.8	20.0	16.7	20.1	19.0	4.8	2.6	-4.9	12.5	-6.3
Net Factor Income	0.0	-1.1	-1.2	-5.6	-5.5	-8.7	..	..	..	..	..
Net Current Transfers	0.0	0.0	0.0	0.0	0.0	0.0	..	..	..	..	..
Gross National Saving	22.2	19.7	18.8	11.2	14.7	10.3	4.4	2.0	-6.9	19.6	-29.3
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	113	153	179	173	168	162	4.4	2.1	-0.1	-2.7	-3.8
Capacity to Import	16	16	22	17	21	25	-1.9	7.5	-2.2	20.2	18.5
Terms of Trade Adjustment	10	6	8	0	0	3	..	..	..	..	..
Gross Domestic Income	123	160	188	173	169	165	3.8	2.1	-0.7	-2.6	-2.1
Gross National Product	113	151	175	163	159	148	4.2	1.9	-0.2	-2.8	-7.0
Gross National Income	123	157	183	163	159	151	3.7	2.0	-0.8	-2.7	-5.2

			(1987 = 100)				*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	0.0	22.7	43.2	100.0	443.0	14083.1	26.4	182.1	285.5	343.0	3079.3
Wholesale Prices (IFS 63)	0.0	27.4	44.9	100.0	512.6	..	22.9	171.9	289.7	412.6	..
Implicit GDP Deflator	0.0	24.7	43.9	100.0	487.9	15483.0	24.0	176.0	291.1	387.9	3073.3
Implicit Expenditures Defl.	0.0	23.8	43.3	100.0	487.8	15118.9	24.3	175.6	294.1	387.8	2999.5

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	1.5	1.6	1.4	
Labor Force	..	..	..	
Gross Natl. Income p.c.	2.1	0.3	-2.2	
Private Consumption p.c.	2.0	0.0	-0.9	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	0.5	5.6	74.7	
Marginal Savings Rates:				
Gross National Saving	12.6	14.5	35.6	
Gross Domestic Saving	16.6	15.6	19.1	
ICOR (period averages):	..	13.1	-27.3	
Share of Total	*1965*	*1973*	*1980*	*1988*
Labor Force in:				
Agriculture	18.3	15.1	13.0	..
Industry	34.2	34.2	33.8	..
Services	47.5	50.7	53.1	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.Z	54.9	109.1	76.1	100.0	99.1	120.4	1,631	2,265	1,245	1,399	1,663	2,114
X.MAN.Y	56.6	82.9	93.3	100.0	130.6	158.5	1,174	855	1,169	1,337	1,949	1,951
X.OAGRI	69.3	100.2	84.8	100.0	131.9	118.0	1,057	1,041	959	1,175	1,897	1,588
X.MAN.HIDES	..	..	..	..	..	..	1,029	639	628	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	3,130	3,596	2,851	2,449	3,625	3,934
Total Exports FOB	79.4	114.6	105.7	100.0	127.4	139.9	8,021	8,396	6,852	6,360	9,134	9,587
F. Merchandise Imports												
Food	398.4	57.0	75.3	100.0	54.6	43.0	1,857	204	286	318	227	176
Fuel and energy	92.6	39.4	80.4	100.0	89.4	77.6	1,075	400	415	653	486	509
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	152.7	79.4	97.3	100.0	90.2	70.7	5,217	2,600	3,409	3,874	3,761	2,938
Capital goods	270.3	71.9	67.6	100.0	81.9	51.4	2,392	610	614	973	848	528
Total Imports CIF	188.7	76.0	90.4	100.0	85.1	65.5	10,541	3,814	4,724	5,820	5,324	4,150

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	162.1	117.5	104.1	100.0	112.6	107.6
Merch. Imports Price Index	95.5	85.8	89.4	100.0	104.3	105.7
Merch. Terms of Trade	169.7	137.1	116.4	100.0	108.0	101.8

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	9,893	10,039	8,433	8,134	11,067	11,896
Merchandise (FOB)	8,021	8,396	6,852	6,360	9,134	9,587
Non-Factor Services	1,872	1,643	1,581	1,774	1,933	2,309
Imports of Goods & NFS	13,081	5,285	6,486	7,627	7,273	6,758
Merchandise (FOB)	9,394	3,518	4,406	5,392	4,900	4,150
Non-Factor Services	3,687	1,767	2,080	2,235	2,373	2,608
Resource Balance	-3,188	4,754	1,947	507	3,794	5,138
Net Factor Income	-1,609	-5,706	-4,808	-4,738	-5,409	-6,419
(interest per DRS)	1,337	4,396	3,707	3,672	2,803	1,591
Net Current Transfers	23	0	2	-8	0	7
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-4,774	-952	-2,859	-4,239	-1,615	-1,274
Net Official Transfers	0	0	0	0	0	0
Curr. A/C Bal. after Off. Transf.	-4,774	-952	-2,859	-4,239	-1,615	-1,274
Long-Term Capital Inflow	4,255	4,790	2,275	2,471	1,464	2,358
Direct Investment	568	919	574	-19	1,147	1,026
Net LT Loans (DRS data)	2,855	2,567	614	1,601	496	-613
Other LT Inflow (Net)	832	1,304	1,087	889	-179	1,945
Total Other Items (net)	-2,186	-2,590	-299	-275	2,071	-3,789
Net Short Term Capital	-1,878	-2,058	-601	-58	2,211	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-308	-532	302	-217	-140	..
Changes in Net Reserves	2,705	-1,248	883	2,043	-1,920	2,705
Net Credit from the IMF	0	1,214	429	1,112	-176	-480
Other Reserves Changes	2,705	-2,462	454	930	-1,744	3,185
As Share of GDP:						
Resource Balance	-5.6	7.2	2.5	0.6	4.0	8.7
Interest Payments	2.4	6.7	4.7	4.5	3.0	2.7
Current Account Balance	-8.4	-1.4	-3.6	-5.3	-1.7	-2.2
Memorandum Items:						
Reserves excl. Gold (mil. US$)	6,719	3,273	2,718	1,617	3,363	1,463
Reserves incl. Gold (mil. US$)	9,297	4,703	4,427	3,734	5,157	3,217
Official X-Rate (LCUs/US$)	0.00	0.60	0.94	2.14	8.75	423.34
Index Real Eff. X-R Base 1980	100.00	43.92	44.06	41.13	37.71	33.75
GDP (millions of current US$)	56,788	65,790	78,798	80,726	93,854	59,246

I. Budget (NFPS) a/	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Current Receipts	35.5	40.5	37.2	30.8	29.6	..	-6.7	..	1.2	..	..
Current Expenditures	34.4	40.5	35.4	33.9	31.9	..	1.0	-6.0	1.4	..	..
Current Budget Balance	1.1	..	1.8	-3.1	-2.3	..	..	-9429.0	-1.7	..	..
Capital Receipts	0.3	0.3	0.2	0.3	0.4	..	-15.1	216.0	3.0	..	..
Capital Expenditures	9.5	7.1	7.1	5.1	5.8	..	-5.9	14.0	1.5	..	..
Adjustments	0.6	0.8	0.8	0.5	..	..	..	..	..	..	..
Overall Deficit	-7.5	-6.0	-4.3	-7.4	..	..	21.0	-30.0	2.7	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	1.9	0.9	4.0	4.2	3.4	..	-52.0	266.0	1.5	..	..
Domestic Non-Bank Financing	5.6	5.1	0.3	3.2	..	..	15.8	-33.0	11.8	..	..
Domestic Bank Financing	..	..	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	1,693	2,749	848	1,589	486	-614	10,181	37,330	40,882	49,186	48,166	47,484
Official Creditors	58	217	269	701	525	405	1,903	4,815	5,992	8,740	8,760	9,312
Multilateral	86	210	336	697	353	187	1,087	2,012	2,675	3,983	4,049	4,114
of which IBRD	37	75	273	662	299	96	404	700	1,140	2,147	2,265	2,281
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	-29	7	-67	4	172	218	816	2,804	3,317	4,758	4,711	5,198
Private Creditors	1,635	2,532	579	888	-39	-1,019	8,278	32,515	34,890	40,445	39,406	38,172
Suppliers	-13	101	20	-126	-136	-180	1,363	1,496	1,685	1,520	1,280	979
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	1,162	-182	-234	12	10	1	6,593	4,575	4,341	1,853	1,378	1,379
Total LT	2,855	2,567	614	1,601	496	-613	16,774	41,905	45,223	51,039	49,544	48,863
IMF Credit	0	1,000	159	623	23	-480	0	2,312	2,741	3,853	3,678	3,100
Net Short-Term Capital	-1,878	-2,058	-601	-58	2,211	..	10,383	6,730	4,410	3,531	5,714	7,683
Total incl. IMF & Net ST	977	1,509	172	2,165	2,730	..	27,157	50,947	52,374	58,423	58,936	59,646

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	2.41	1.67	2.52	4.21	4.57	4.67
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	2.41	1.67	2.52	4.21	4.57	4.67
Share of LT Debt Service						
1. IBRD as % of Total	2.24	2.11	3.65	4.28	8.38	13.30
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	2.24	2.11	3.65	4.28	8.38	13.30
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	149.74	405.70	511.51	607.60	439.06	401.70
2. IMF Credit/Exports	0.00	22.39	31.00	45.87	32.59	25.48
3. Short-Term Debt/Exports	92.69	65.15	49.88	42.03	50.64	63.16
4. LT+IMF+ST DOD/Exports	242.43	493.24	592.40	695.51	522.30	490.34
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	29.54	63.70	57.39	63.22	52.79	82.47
2. IMF Credit/GDP	0.00	3.51	3.48	4.77	3.92	5.23
3. Short-Term Debt/GDP	18.28	10.23	5.60	4.37	6.09	12.97
4. LT+IMF+ST DOD/GDP	47.82	77.44	66.47	72.37	62.80	100.67
Debt Service /Exports						
1. Public & Guaranteed LT	17.74	41.30	53.16	55.33	33.23	23.55
2. Private Non-guaranteed LT	10.74	11.11	11.88	6.85	3.48	2.21
3. Total Long-Term Debt Service	28.48	52.41	65.04	62.18	36.71	25.76
4. IMF Repurchases+Serv. Chgs.		1.16	6.58	10.05	6.69	8.15
5. Interest only on ST Debt	8.86	5.38	4.63	2.38	1.09	2.74
6. Total (LT+IMF+ST Int.)	37.33	82.98	99.20	83.47	44.50	42.44

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Bangladesh

The Bangladesh economy has structural problems that policymakers have tried to address over the past two decades. The economy is heavily dependent on agriculture (mainly foodgrain and jute production) for nearly half of GDP or exports and three-quarters of employment. Even with output growth of 3-4 percent a year, agriculture will not be able to absorb the rapidly growing labor force and generate adequate foreign exchange to sustain higher economic growth. Therefore, growth in industry, which accounts for about 14 percent of GDP, and expansion of labor-intensive exports are essential for achieving growth and development objectives.

However, Bangladesh's labor force is largely unskilled and lacks the education, health, and nutrition necessary to make the transition to faster industrial and export growth. Per capita public expenditures on education and health services are among the lowest in the world.

Moreover, the economy is characterized by a low rate of national savings (4.8 percent in FY89) and a large structural external payments gap. Remittances account for over half of national savings (which in turn finances less than half of total investment in the economy), while export earnings cover only about 40 percent of the import bill. Inadequate growth in domestic revenue generation has become a serious constraint on the financing of public sector investment as well as the operations and maintenance of existing assets.

Other constraints on development include deficient infrastructure (such as power and transportation), inefficient public enterprises, weak public administration, a restrictive import regime, and a weak domestic financial system.

Despite these constraints and repeated natural disasters, Bangladesh made significant progress in the early to mid-1980s. Sustained stabilization policies helped to reduce external and fiscal deficits from 10-12 percent of GDP in the early eighties to around 6-7 percent of GDP by FY88[1], while the domestic inflation rate was brought down to about 9 percent per annum. Policies designed to promote exports and improve exchange rate management helped to increase non-traditional exports by over 20 percent a year in real terms, and workers' remittances from abroad exceeded $700 million, equivalent to about 25 percent of imports in FY88. Policies were introduced to stimulate domestic production by providing incentive prices to farmers, deregulating private investment sanctioning procedures, and undertaking a major denationalization of public enterprises. Development of domestic commercial energy supplies, especially natural gas, increased rapidly, enabling relatively high growth in the power and fertilizer sectors and significant import substitution of petroleum products.

These policies enabled Bangladesh, despite numerous setbacks, to achieve an average rate of GDP growth of about 4 percent a year through FY87. However, the performance of the major productive sectors of the economy—agriculture and manufacturing—continued to be below expectations. In the FY81-87 period, value added in agriculture grew at 2.6 percent a year, that is, about the same rate as population growth, while manufacturing growth averaged only 2.8 percent a year. Slow progress in domestic resource mobilization and the lack of a strong political commitment to improving financial discipline have been among the important concerns.

Recent Economic Developments

Compared to the reasonably good progress in the mid 1980s, economic performance slipped in the most recent three year period. In FY88 and FY89, GDP growth averaged only about 2 percent. This deceleration in economic growth was in part attributable to floods, which affected the aman (rice) and jute crops. Income and employment losses associated with these setbacks contributed to weak domestic demand for the

1. Fiscal year ends June 30 of specified year.

manufacturing sector, where growth averaged less than 3 percent during these two years.

At the same time, deficiencies in short-term economic management by the government contributed to the deceleration of economic activity. Overly cautious fiscal management led to unnecessarily large cutbacks in public investment in both FY88 and FY89, exacerbating the depressive effects of the floods on the economy. Project implementation performance deteriorated, and the project aid disbursement ratio fell from 21 percent in FY87 to 19 percent in both FY88 and FY89. The stagnation in the economy contributed to slippages in the modest improvement in the poverty situation which occurred in the early and mid-1980s. Import growth stagnated, leading to a large build-up in foreign exchange reserves to a peak of about $1.1 billion during FY89. On the positive side, the government completed a major review of the agricultural sector and began implementing policies (particularly the liberalization of minor irrigation equipment) which have had a major impact on agricultural production.

In FY90, aided by good weather and significantly improved agricultural policies, GDP growth is expected to exceed 5 percent. Despite this recovery, clear signs of a potentially serious deterioration in the financial situation emerged in early FY90. The fiscal and monetary situation weakened significantly as the government swung from an overly conservative to a highly expansionary stance. Tax revenues fell about 10-12 percent below budget projections; current expenditures continued to increase rapidly (due in part to large wage increases and higher subsidies), constraining the public investment program through induced shortfalls in the availability of local funds; and credit expansion increased well in excess of agreed credit ceilings. Expansionary pressures coinciding with the recovery in the economy also led to a surge in imports, and foreign exchange reserves fell sharply to less than US$500 million by November 1989, equivalent to 1.6 months' imports.

Recognizing this deterioration, in February and March 1990 the government initiated a short-term program to stabilize the economic situation. To contain the rapid growth of imports, the government imposed a 50 percent deposit requirement for opening letters of credit on all imports and tightened the availability of bank credit for import financing; the government has also depreciated the taka by about 8 percent in nominal terms (since March 1990), signaling a resumption of the flexible exchange rate management policy which had been suspended since November 1988. To improve the budgetary situation, the government announced new measures designed to mobilize additional revenues of Tk 2 billion and imposed tight restraints on current expenditures. These measures are expected to limit the budget deficit to about 7 percent of GDP and achieve an annual development program of around Tk 41 billion to 45 billion, considerably short of the original budget target of Tk 58 billion but significantly better than would have been possible in the absence of the new measures.

These actions represent a substantial effort to stabilize the short-term macroeconomic situation. However, to ensure continued financial stability, more needs to be done over the coming months to reduce the growth of current expenditures, increase revenue mobilization, reassess priorities in the development budget, and provide additional local resources for high priority projects in order to improve project implementation and aid utilization. Concurrently, to help maintain external payments viability, continued active exchange rate management is needed to ensure competitiveness of exports on a sustained basis and restrain import growth without resorting to restrictive trade and foreign exchange practices. At the recently concluded Bangladesh Aid Group Meeting in Paris, the government agreed to an action program, with such objectives. The FY91 budget, scheduled to be announced in late June, is expected to provide further evidence of the government's commitment to maintain financial stability and pave the way for more vigorous action to increase development activities.

Development Strategy and Medium-Term Prospects

The primary objective of the government's development strategy is to alleviate poverty through increased access to food and other basic needs and to raise the general standard of living. This is a formidable task for a poor country where 30 percent are rural and landless. It is estimated that perhaps half of the population have incomes below the moderate poverty level, and one-fifth have calorie consumption below the extreme poverty level.

Agriculture. Adequate price incentives can be given through effective domestic procurement and better co-ordination of foodgrain imports, improved input delivery and credit support, and complementary investments in water control, research and extension services.

Industry and trade. Suitable conditions for private sector investment can be created through: (i) active exchange rate management, the provision of adequate export incentives and improved access to imported inputs on competitive terms; (ii) acceleration of trade liberalization by further reducing quantitative restrictions and tariffs; and (iii) strengthening institutions in the financial sector.

Public expenditure. A rationalization of the program would improve the efficiency of resource use and absorptive capacity. Greater emphasis could be placed on: (i) adequate provision of funding for high priority development projects and increased budgetary allocations for the productive sectors and human resource development (including operations and maintenance); (ii) limiting less essential current expenditures as well as lower priority projects; and (iii) reducing implementation bottlenecks to improve the utilization of foreign resources. Efforts to increase domestic resource mobilization through reform of the financial and tax systems and improved performance of public enterprises are also essential.

The environment. The past two years have highlighted the vulnerability of Bangladesh to environmental problems. In late 1989 the Bank prepared an Action Plan for Flood Control, which was unanimously endorsed by members of the Bangladesh Aid Group at a meeting in London hosted by the British government. Good progress has been made in implementing the Action Plan, including a successful working level meeting of donors and government in Dhaka in January, and almost all components are expected to be underway by the end of calendar 1990.

Social sectors. While higher growth is necessary to reduce widespread poverty, it will not be sufficient for achieving poverty alleviation goals. Sustained efforts to promote human resource development through expanded programs in population, health and education are important. Reducing the population growth rate from the present 2.6 percent a year is one of the highest priorities. General education needs to be improved by promoting equitable access to primary schooling, especially for girls, and raising education standards both at primary and secondary levels. Complementary to these efforts, steps to increase nonfarm employment generation are needed by expanding and improving the effectiveness of existing programs in these areas, involving both the government and local nongovernmental organizations. Finally, the situation of women requires greater attention to ensure that they have adequate access to services, credit and employment to enable them to contribute more productively to economic growth.

In order to achieve the government's development goals, Bangladesh will need to increase gross domestic investment over the next three years, from 11 percent of GDP in FY89. Increased national savings are expected to finance about half of the projected investment on average, while external assistance (mainly on highly concessional terms) will continue to be needed as well. The annual Bangladesh Aid Group, chaired by the Bank, provides an effective forum for coordination of external aid.

External Debt

Bangladesh's total public and publicly-guaranteed medium and long-term debt stood at $9.3 billion at the end of 1988, equivalent to 48.3 percent of GDP. Bangladesh's short-term obligations (including private debt) are quite small, and total debt, including short-term debt and borrowings from the IMF, amounted to $10.2 billion, or 52.9 percent of GDP in 1988. Bangladesh's external debt service ratio, equal to 21 percent of exports of goods and services and private transfers in FY89, is somewhat higher than that of other low income countries in the Asia region. This ratio is expected to decline slightly during the 1990s. Nevertheless, this level of debt service highlights the need for careful debt management and for highly concessional external assistance. Bangladesh has no unresolved disputes with foreign lenders, and no debt reschedulings are planned. The Bank accounted for 35 percent of long-term debt outstanding and disbursed in 1988 (almost all of it on IDA terms) and 13 percent of total long-term debt service payments.

BANGLADESH

Mid-1988 Population (mils.)	109
1988 Per Capita GNP in US$:	170

	A. Shares of Gross Domestic Product *(from current price data)*						B. Growth Rates(% per annum) *(from constant price data)*				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	0.1	5.6	3.7	1.9	2.2
Net Indirect Taxes	3.1	2.4	5.2	5.6	5.5	5.7	..	..	..	..	..
Agriculture	52.8	57.9	50.3	48.0	45.5	44.3	0.4	3.4	2.4	-0.9	0.3
Industry	10.7	10.1	14.9	13.4	14.0	14.4	-6.1	11.9	4.9	6.5	5.2
(of which Manufacturing)	5.4	6.4	9.9	7.4	7.4	7.4	-1.9	13.3	2.6	2.7	2.8
Services	36.5	32.0	34.8	38.6	40.5	41.3	1.5	7.4	5.0	3.9	3.5
Resource Balance	-3.7	1.0	-12.9	-8.9	-9.3	-10.5	..	..	..	..	..
Exports of GNFS	9.7	6.0	5.7	7.4	7.9	7.7	-1.3	6.6	5.6	7.0	6.9
Imports of GNFS	13.4	5.0	18.6	16.3	17.2	18.2	-3.9	14.8	3.5	14.2	2.7
Total Expenditures	103.7	99.0	112.9	108.9	109.3	110.5	-0.2	6.6	3.5	3.4	2.0
Total Consumption	92.2	90.1	97.9	96.4	97.5	98.9	0.4	6.1	4.1	4.7	1.9
Private Consumption	83.2	86.0	91.5	87.7	88.2	90.7	..	..	3.5	3.8	1.9
General Government	9.1	4.0	6.4	8.7	9.3	8.2	..	..	15.2	14.0	2.1
Gross Domestic Investment	11.5	8.9	15.1	12.6	11.9	11.7	-5.4	10.5	-0.4	-6.2	2.2
Fixed Investment	..	..	15.1	12.6	11.9	11.7	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	5.0	9.9	2.1	3.6	2.5	1.1	..	..	-3.4	-53.6	-40.4
Net Factor Income	0.1	0.3	0.1	-0.7	-0.7	-0.7	..	..	..	..	..
Net Current Transfers	..	0.6	1.6	4.2	4.2	4.1	..	..	..	..	..
Gross National Saving	..	10.8	3.9	7.1	6.0	4.6	..	..	2.5	-26.0	-12.0

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	283	281	414	541	552	564	0.1	5.6	3.7	1.9	2.2
Capacity to Import	27	24	24	40	46	44	-4.7	3.8	8.8	15.5	-5.2
Terms of Trade Adjustment	12	5	-1	0	3	-2	..	..	..	..	..
Gross Domestic Income	294	287	412	541	555	562	-0.2	5.4	3.9	2.6	1.2
Gross National Product	283	282	414	537	548	560	0.2	5.5	3.6	1.9	2.3
Gross National Income	294	287	413	537	551	558	-0.2	5.3	3.8	2.5	1.3

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	47.0	82.2	91.3	100.0	109.3	120.3	9.9	12.4	10.9	9.3	10.0
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	47.9	83.9	89.1	100.0	107.0	115.4	7.2	13.5	10.9	7.0	7.8
Implicit Expenditures Defl.	48.0	82.7	90.0	100.0	105.9	115.7	7.6	14.0	10.5	5.9	9.3

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.8	2.7	2.6
Labor Force	..	..	..
Gross Natl. Income p.c.	-2.9	2.6	1.0
Private Consumption p.c.	..	..	0.7
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	2.7	0.9
Marginal Savings Rates:			
Gross National Saving	..	-12.6	12.3
Gross Domestic Saving	..	-16.5	3.6
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	83.7	79.4	74.8	..
Industry	4.8	5.2	6.0	..
Services	11.4	15.4	19.2	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.OAGRI.Y	87.8	62.8	102.6	100.0	60.0	72.3	144	151	124	104	81	97
X.MAN.HIDES	60.2	59.5	52.0	100.0	80.2	92.8	66	70	61	135	147	137
X.FOOD.FISH	26.1	83.9	103.5	100.0	106.1	99.7	37	87	113	136	140	141
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	55.2	72.7	74.2	100.0	115.2	115.0	392	506	424	601	735	751
Residual	79.6	93.8	102.3	100.0	148.6	199.1	83	120	97	98	128	160
Total Exports FOB	59.8	73.4	81.6	100.0	107.2	114.2	722	934	819	1,074	1,231	1,286
F. Merchandise Imports												
Food	131.1	131.8	70.2	100.0	178.0	116.8	691	601	356	388	665	544
Fuel and energy	98.4	89.1	105.0	100.0	103.1	117.3	383	359	342	230	270	281
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	67.1	76.0	78.0	100.0	78.7	97.6	545	616	691	1,003	856	1,090
Total Imports CIF	91.0	105.0	91.0	100.0	115.2	117.7	2,372	2,647	2,364	2,620	2,986	3,375

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	112.5	118.6	93.5	100.0	107.0	104.8
Merch. Imports Price Index	99.5	96.2	99.2	100.0	99.0	109.5
Merch. Terms of Trade	113.0	123.2	94.2	100.0	108.0	95.7

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	885	1,162	1,043	1,301	1,486	1,558
Merchandise (FOB)	722	934	819	1,074	1,231	1,286
Non-Factor Services	163	228	224	227	255	272
Imports of Goods & NFS	2,545	2,864	2,587	2,876	3,253	3,692
Merchandise (FOB)	2,372	2,647	2,364	2,620	2,987	3,375
Non-Factor Services	173	217	223	256	266	317
Resource Balance	-1,660	-1,702	-1,544	-1,576	-1,767	-2,134
Net Factor Income	14	-90	-126	-122	-133	-104
(interest per DRS)	46	90	107	135	139	172
Net Current Transfers	210	477	586	731	788	836
(workers' remittances)	197	364	497	617	737	771
Curr. A/C Bal. before Off. Transf.	-1,436	-1,314	-1,084	-966	-1,112	-1,402
Net Official Transfers	592	701	963	657	823	673
Curr. A/C Bal. after Off. Transf.	-844	-614	-121	-309	-288	-729
Long-Term Capital Inflow	683	546	152	681	652	644
Direct Investment	0	0	2	2	0	0
Net LT Loans (DRS data)	627	489	845	781	713	768
Other LT Inflow (Net)	56	58	-695	-103	-62	-124
Total Other Items (net)	-43	-10	97	-169	-219	142
Net Short Term Capital	11	-5	10	-100	-160	35
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-54	-5	87	-69	-59	107
Changes in Net Reserves	204	77	-128	-203	-145	-57
Net Credit from the IMF	21	-7	-28	134	13	68
Other Reserves Changes	182	84	-100	-337	-158	-125
As Share of GDP:						
Resource Balance	-13.0	-10.6	-9.9	-8.9	-9.4	-10.5
Interest Payments	0.4	0.6	0.7	0.8	0.7	0.9
Current Account Balance	-11.2	-8.2	-7.0	-5.5	-5.9	-6.9
Memorandum Items:						
Reserves excl. Gold (mil. US$)	300	336	409	843	1,046	501
Reserves incl. Gold (mil. US$)	331	354	430	869	829	929
Official X-Rate (LCUs/US$)	15.45	27.99	30.41	30.95	31.73	32.27
Index Real Eff. X-R Base 1980	100.00	107.03	93.01	89.67	87.25	..
GDP (millions of current US$)	12,792	16,039	15,566	17,665	18,889	20,236

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	8.8	8.6	9.2	8.9	9.0	..	13.5	17.7	13.5	11.0	..
Current Expenditures	5.5	7.4	7.9	7.7	8.3	..	20.9	29.9	16.8	15.4	..
Current Budget Balance	3.3	1.2	1.3	1.2	0.7	..	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	-10.7	-7.3	-7.9	-8.6	-6.9	..	12.2	20.1	26.8	-12.0	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	..	..	..	..	..	..	..	..	..	..
Official Capital Grants	8.8	6.9	6.8	7.4	..	..	14.6	9.9	28.0	9.6	..
External Borrowing (net)	..	..	..	..	..	..	..	..	..	..	..
Domestic Non-Bank Financing	0.4	0.8	0.7	0.2	..	..	..	..	..	..	..
Domestic Bank Financing	1.5	-0.2	-0.2	0.5	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	627	489	845	781	714	768	3,398	5,880	7,202	8,804	9,330	9,725
Official Creditors	614	496	791	779	741	777	3,340	5,732	6,992	8,580	9,139	9,547
Multilateral	264	444	545	492	509	557	1,230	2,801	3,455	4,174	4,579	5,092
of which IBRD	0	-1	-1	-1	-1	-2	55	55	61	70	66	62
of which IDA	156	283	342	340	283	288	926	2,021	2,450	2,986	3,189	3,443
Bilateral	351	52	246	287	233	220	2,110	2,931	3,538	4,406	4,561	4,455
Private Creditors	12	-7	54	2	-28	-9	58	147	209	224	190	179
Suppliers	5	-3	52	11	-21	2	24	104	158	171	148	149
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	627	489	845	781	714	768	3,398	5,880	7,202	8,804	9,330	9,725
IMF Credit	136	1	-39	203	41	-85	424	520	539	841	840	719
Net Short-Term Capital	11	-5	10	-100	-160	35	212	135	125	74	50	50
Total incl. IMF & Net ST	774	485	816	885	595	718	4,035	6,535	7,865	9,718	10,219	10,494

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	1.62	0.93	0.85	0.80	0.71	0.64
2. IDA as % of Total	27.25	34.37	34.01	33.91	34.18	35.40
3. IBRD+IDA as % of Total	28.86	35.30	34.86	34.71	34.88	36.04
Share of LT Debt Service						
1. IBRD as % of Total	3.98	1.60	2.05	1.70	1.71	1.45
2. IDA as % of Total	7.06	11.19	11.69	11.95	11.39	8.69
3. IBRD+IDA as % of Total	11.04	12.79	13.73	13.65	13.10	10.14
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	289.52	371.27	456.84	450.73	409.53	397.27
2. IMF Credit/Exports	36.14	32.83	34.17	43.05	36.86	29.35
3. Short-Term Debt/Exports	18.06	8.52	7.93	3.78	2.19	2.03
4. LT+IMF+ST DOD/Exports	343.72	412.62	498.95	497.56	448.58	428.66
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	26.57	36.66	46.27	49.84	49.39	48.06
2. IMF Credit/GDP	3.32	3.24	3.46	4.76	4.44	3.55
3. Short-Term Debt/GDP	1.66	0.84	0.80	0.42	0.26	0.25
4. LT+IMF+ST DOD/GDP	31.54	40.74	50.53	55.01	54.10	51.86
Debt Service /Exports						
1. Public & Guaranteed LT	6.64	12.64	15.20	15.08	13.84	16.31
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	6.64	12.64	15.20	15.08	13.84	16.31
4. IMF Repurchases+Serv. Chgs.	8.79	7.84	11.81	10.60	6.10	6.27
5. Interest only on ST Debt	1.37	0.85	0.83	0.61	0.22	0.18
6. Total (LT+IMF+ST Int.)	16.80	21.32	28.48	28.91	21.22	22.77

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Barbados

Barbados, a small island in the Caribbean with limited natural resources and a high population density (587 per square kilometer), has made impressive gains in recent decades. During the 1960s and 1970s, growth averaged five percent per year in real terms, and low population growth permitted per capita GNP to advance to US$5,910 in 1988. Meanwhile, the economic base developed from a monoculture producing and exporting sugar, to a more diversified structure featuring strong tourism and manufacturing sectors. By the beginning of the 1980s, agriculture, tourism and manufacturing each directly contributed some one-third of the national product. These developments have been largely attributable to the country's outward-looking strategy, reliance on markets, a judicious balance between the roles of government and private enterprise, and the country's social and political stability.

As a small open economy sensitive to fluctuations in international prices and demand, Barbados suffered severe external shock during the 1981-83 world recession. Activity in the sensitive tourism sector, the largest export earner, dropped a cumulative 21 percent over the two years 1981 and 1982. The economic impact was compounded by poor sugar harvests and weakening commodity prices in the same years, with the result that the balance of payments and public finances deteriorated sharply. The authorities adopted a program of fiscal and monetary austerity and by the end of 1983, with the successful implementation of the stabilization program, the deterioration in the public finances and balance of payments was contained.

The economy emerged from the 1981-83 period with its economic structure weakened. Both the tourism and sugar sectors encountered severe financial difficulties in those years. A number of hotel operations failed, debt service delinquencies multiplied and the sugar industry suffered substantial losses because of both output and price declines. The manufacturing sector meanwhile was sustained by strong growth in the enclave electronics subsector whose performance more than outweighed the declines in the rest of manufacturing. The low economic activity in those years pushed the unemployment rate from 11 percent in 1981 to about 16 percent by the end of 1983. Inflation, however, moderated along with the slower rise in import prices.

Recent Economic Developments

After two years of negative real growth during the 1981-83 world recession, the economy recovered mildly in 1983 and recorded a growth rate of 3.5 percent in real terms in 1984. But the economy experienced a slowdown in 1985, with real GDP growth of only one percent as a result of declines in tourism and manufacturing and stagnation in sugar. Real GDP growth reached five percent in 1986, mainly owing to good performance in tourism. However, growth averaged about three percent per annum during 1987-89. The sugar industry experienced a significant decline due to prolonged dry weather and manufacturing was hurt by plant closures, including two major foreign firms engaged in electronics and garment manufacture, and by the progressive decline in sales to other CARICOM countries, especially Trinidad and Tobago and Jamaica. Meanwhile, with the slowdown in economic activity of recent years, high level of real wages and nonwage labor costs, unemployment has remained at over 17 percent.

As a result of an increase in imports, the current account deficit in the balance of payments widened from US$23 million in 1988, equivalent to 1.5 percent of GDP, to US$29 million in 1989, equivalent to 1.7 percent of GDP. Capital inflows, particularly short-term, however, contributed to arrest the decline in the import coverage of the country's gross official reserves to two months at end 1989. Public sector current revenues improved modestly, from about 31 percent of GDP in 1988/89 to an estimated 31.5 percent of GDP in 1989/90. The growth of revenues, together with the containment of expenditure growth, resulted in a fall in the overall public sector deficit from about 2.5 percent of GDP in 1988/89 to an estimated one percent of GDP in 1989/90.

Key Development Issues

The government is committed to an economic strategy based on export-led growth and on a growing role for the private sector. Accordingly, much emphasis is being placed on export marketing and on stimulating domestic investment. The public sector is expected to play a supportive role and to attain higher levels of operational efficiency. There are, however, a number of issues, as discussed below, that need to be addressed in order to achieve the growth performance expected by the government.

Macroeconomic issues. Economic recovery will depend crucially on improving the competitiveness of Barbados' exports, thereby creating a climate for profitable investments in the economy. The Barbados dollar has been pegged to the U.S. dollar since 1973. Barbados remains relatively costly as a destination for tourism and as a source of manufactures and agricultural exports. As the Barbados dollar has appreciated along with the U.S. dollar against European currencies over the last year, the competitiveness issue remains critically important. There is need for the authorities to tighten domestic demand, particularly by exercising restraint with respect to wage increases, which between 1983 and 1986 exceeded domestic inflation by significant margins. Wage hikes moderated in 1988/89 to about the growth of domestic inflation.

In regard to fiscal policy, the main task before the government is to continue to increase public savings. The current account savings of the consolidated public sector fell from over 4.5 percent of GDP in 1980 to less than one percent in 1987/88. Public sector savings have trended upward again in the last two years, reaching almost five percent of GDP in 1989/90.

Sectoral Issues. The tourism sector is the largest employer and the prime generator of foreign exchange earnings. It also has a better growth potential than any other sector of the economy. Labor costs, however, are quite high (30 percent of total hotel revenues) and are likely to exacerbate the low operating profits of the industry. Also, the tourist product needs to be substantially upgraded through refurbishing and renovation, management training for small establishments, and continuous programs for frontline workers.

Barbados' lack of competitiveness is perhaps most evident in its manufacturing sector where output has fallen significantly in recent years as a result of a loss of regional and international markets. Exports of manufactured goods in 1989 are estimated to have been 52 percent of what they were in 1986 and only 35 percent of their 1984 level. In some lines of manufactures, producers find it difficult to compete with imports from Jamaica and Trinidad and Tobago, even in the local market, following devaluations in those countries. In addition to enhancing cost competitiveness, the essential ingredients of a manufacturing strategy should include: improved export marketing in regional and extra-regional markets, and reliance on tariffs rather than on quotas and negative lists.

In agriculture, the major issue relates to the rationalization of the sugar industry. Profitability in the sugar subsector has steadily declined owing to both persistently low world prices and internal factors such as the high cost of labor, overheads and management. In 1989, the unit cost of production exceeded average receipts per ton by about one-third, up from one quarter during the previous two years.

The government's medium-term public investment program focuses on rehabilitation of economic infrastructure, projects and technical assistance to support private sector investments, and improvements in vocational education and training. Its successful execution will enhance the country's appeal to visitors and potential investors.

Medium-Term Outlook

The medium to long-term view of the economy, debt burden and creditworthiness can be assessed through two scenarios. One scenario assumes no significant expansion in exports or tourism and no major pick-up in public and private investment. The result would be sluggish real growth of one percent to two percent annually over the next five years, and the debt service would reach 25 percent of exports of goods and non-factor services by 1991 before declining to more manageable proportions. A more favorable scenario assumes further implementation of policy reforms to raise public savings and enhance export competitiveness. Real GDP could then grow at 2.5 percent to 3.5 percent annually over the next five years, and the debt service ratio would peak at 23 percent in 1991 and decline to 6.5 percent by 1998.

Barbados' government and government-guaranteed external debt as of end December 1989 stood at US$623 million, equivalent to 36 percent of GDP the same level as in 1988. The debt service ratio was 7.9 percent in 1988 (10.6 percent in 1987). The government has so far met its debt servicing obligations, but debt servicing could become an acute problem should the country's main foreign exchange earner, tourism, encounter difficulties. Maintaining its borrowing potential critically hinges on improving the economy's competitiveness; fiscal, monetary and wage discipline;

strong tourism; and renewed growth of manufactured exports. Barbados' external borrowing also needs to be carefully aimed at the contracting of longer-term funds, primarily for the financing of productive projects with high rates of return.

In 1988, the Bank's share in Barbados' outstanding and disbursed public and publicly guaranteed external debt was 7.2 percent; its share in Barbados' external debt service was 14.33 percent. Barbados is currently in the process of graduating from Bank lending.

BARBADOS

Mid-1988 Population (mils.)	0.254
1988 Per Capita GNP in US$:	5,990

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.1	3.6	1.8	6.9	3.6
Net Indirect Taxes	9.8	10.6	11.6	14.2	13.9	15.2	..	..	..	..	..
Agriculture	18.1	9.3	9.1	7.1	6.5	5.6	-6.1	2.3	-0.7	-5.9	-9.0
Industry	19.1	16.5	19.8	18.4	17.7	17.7	5.1	4.4	0.4	6.9	5.5
(of which Manufacturing)	..	7.9	10.1	9.5	8.4	8.4	..	6.1	-1.5	6.7	5.3
Services	53.1	63.6	59.6	60.2	61.9	61.5	9.2	3.2	2.0	3.6	4.4
Resource Balance	-10.1	-11.6	-6.0	0.5	2.0	-2.0	..	..	..	..	..
Exports of GNFS	58.4	60.3	67.3	46.0	49.6	50.2	..	..	..	..	..
Imports of GNFS	68.5	71.9	73.3	45.5	47.6	52.2	..	..	..	..	..
Total Expenditures	110.1	111.6	106.0	99.5	98.0	102.0	..	..	..	..	..
Total Consumption	80.2	77.3	80.7	83.5	80.5	83.6	..	..	..	..	..
Private Consumption	70.8	62.8	63.3	66.4	63.1	67.2	..	..	..	..	..
General Government	9.4	14.5	17.4	17.1	17.3	16.4	..	..	..	..	..
Gross Domestic Investment	17.7	22.2	25.3	16.0	17.5	18.4	..	..	..	..	..
Fixed Investment	17.7	22.2	25.3	16.0	14.5	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	7.5	10.6	19.3	16.5	19.5	16.4	..	..	..	..	..
Net Factor Income	1.7	-0.6	0.3	-3.1	-0.6	-2.7	..	..	..	..	..
Net Current Transfers	2.3	2.0	2.6	1.3	1.6	1.6	..	..	..	..	..
Gross National Saving	11.5	12.0	22.2	14.8	20.5	15.4	..	..	..	..	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	1,443	2,222	2,760	2,914	3,115	3,227	6.1	3.6	1.8	6.9	3.6
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	1,477	2,198	2,774	2,824	3,013	3,006	5.6	3.6	1.4	6.7	-0.2
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

			(1987 = 100)				Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	66.0	95.5	96.8	100.0	104.9	111.3	8.2	13.1	5.2	4.9	6.2
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	60.8	92.3	91.3	100.0	99.4	106.9	7.2	11.4	5.8	-0.6	7.5
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	0.4	0.3	0.3	
Labor Force	..	..	..	
Gross Natl. Income p.c.	..	..	..	
Private Consumption p.c.	..	..	..	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	..	..	..	
Marginal Savings Rates:				
Gross National Saving	13.7	62.3	8.1	
Gross Domestic Saving	16.3	55.9	21.3	
ICOR (period averages):	..	..	..	
Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	22.2	15.5	9.9	..
Industry	26.6	24.3	20.9	..
Services	51.1	60.2	69.2	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.SUGAR	..	..	..	..	..	..	60	29	30	35	34	26
X.MAN.TEXT.X	..	..	..	..	..	..	..	23	18	12	15	15
X.MAN.Y	..	..	..	..	..	..	..	21	22	16	23	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	100	..	..	..	..	..
Residual	..	..	..	..	..	..	8	175	144	48	55	112
Total Exports FOB	..	..	..	..	..	..	168	248	214	111	127	154
F. Merchandise Imports												
Food	..	..	..	..	..	..	84	129	133	140	144	164
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	26	32	32	31	76
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	238
Capital goods	..	..	..	..	..	..	127	86	91	86	99	107
Total Imports CIF	..	..	..	..	..	..	463	504	528	472	517	621

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	552	765	719	655	772	676
Merchandise (FOB)	181	300	244	131	148	142
Non-Factor Services	371	465	476	523	624	533
Imports of Goods & NFS	599	708	715	667	799	686
Merchandise (FOB)	481	559	521	458	572	547
Non-Factor Services	118	149	194	208	227	140
Resource Balance	-47	57	4	-12	-28	-11
Net Factor Income	0	-22	-31	-48	-20	-47
(interest per DRS)	6	20	31	33	38	54
Net Current Transfers	21	15	19	19	25	28
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-26	49	-9	-41	-23	-29
Net Official Transfers	0	-9	-7	-12	13	47
Curr. A/C Bal. after Off. Transf.	-26	40	-16	-53	-10	18
Long-Term Capital Inflow	23	11	12	69	16	-25
Direct Investment	2	3	5	5	2	7
Net LT Loans (DRS data)	30	48	88	-12	76	41
Other LT Inflow (Net)	-9	-39	-81	76	-62	-74
Total Other Items (net)	21	-30	24	-10	-5	23
Net Short Term Capital	28	-17	6	31	2	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-7	-12	17	-41	-7	23
Changes in Net Reserves	-18	-22	-20	-6	-1	-15
Net Credit from the IMF	-6	5	-8	-18	-12	..
Other Reserves Changes	-12	-27	-12	11	11	-15
As Share of GDP:						
Resource Balance	-5.6	4.7	0.3	-0.8	-1.8	-0.6
Interest Payments	0.7	1.7	2.4	2.3	2.4	3.2
Current Account Balance	-3.1	4.1	-0.7	-2.8	-1.5	-1.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	79	140	152	145	135	109
Reserves incl. Gold (mil. US$)	81	142	154	148	138	112
Official X-Rate (LCUs/US$)	2.01	2.01	2.01	2.01	2.01	2.01
Index Real Eff. X-R Base 1980	100.00	133.26	124.25	117.16	113.65	116.80
GDP (millions of current US$)	835	1,204	1,316	1,449	1,540	1,715

I. Central Government Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	25.3	26.7	25.1	25.8	26.8	..	7.6	4.0	6.8	..	..
Current Expenditures	23.0	25.8	23.4	26.7	30.8	..	9.4	0.3	18.7	..	..
Current Budget Balance	2.3	0.9	1.7	-0.9	-3.7	..	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	8.4	7.0	6.1	7.8	5.6	..	-1.9	-3.0	33.0	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-6.2	-6.1	-4.4	-8.8	-3.9	..	..	..	..	..	..
Official Capital Grants	0.1	0.1	0.1	0.1	..	..	..	..	..	..	..
External Borrowing (net)	4.8	1.6	5.6	4.4	..	..	..	..	..	..	..
Domestic Non-Bank Financing	-0.1	3.5	-0.4	..	..	..	..	..	..	..	..
Domestic Bank Financing	1.4	8.9	-0.6	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	30	48	88	-12	76	41	98	361	466	497	566	623
Official Creditors	30	11	39	16	7	9	77	196	243	281	282	305
Multilateral	12	9	14	13	10	9	34	112	136	161	165	189
of which IBRD	1	6	1	-1	-3	-3	1	31	39	48	41	35
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	19	2	25	3	-3	0	44	84	107	120	116	116
Private Creditors	-1	38	49	-27	69	33	21	165	223	216	285	318
Suppliers	0	-1	0	0	-1	-1	0	1	1	1	1	1
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	30	48	88	-12	76	41	98	361	466	497	566	623
IMF Credit	-6	0	-13	-22	-11	-6	3	48	40	22	10	4
Net Short-Term Capital	28	-17	6	31	2	0	65	55	114	108	169	157
Total incl. IMF & Net ST	52	31	81	-2	67	36	166	463	619	627	746	785

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.92	8.70	8.44	9.56	7.17	5.65
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	0.92	8.70	8.44	9.56	7.17	5.65
Share of LT Debt Service						
1. IBRD as % of Total	1.37	10.45	12.06	12.74	14.33	8.27
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	1.37	10.45	12.06	12.74	14.33	8.27
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	17.08	45.41	61.39	72.21	62.93	89.48
2. IMF Credit/Exports	0.51	6.03	5.24	3.21	1.16	0.62
3. Short-Term Debt/Exports	11.35	6.87	15.01	15.67	18.81	22.58
4. LT+IMF+ST DOD/Exports	28.93	58.30	81.63	91.09	82.90	112.67
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	11.72	29.98	35.38	34.31	36.78	36.35
2. IMF Credit/GDP	0.35	3.98	3.02	1.53	0.68	0.25
3. Short-Term Debt/GDP	7.79	4.54	8.65	7.45	10.99	9.17
4. LT+IMF+ST DOD/GDP	19.86	38.50	47.05	43.29	48.45	45.77
Debt Service /Exports						
1. Public & Guaranteed LT	2.55	5.54	7.54	10.60	7.91	15.62
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	2.55	5.54	7.54	10.60	7.91	15.62
4. IMF Repurchases+Serv. Chgs.	1.01	0.45	2.19	3.54	1.32	0.92
5. Interest only on ST Debt	0.87	0.52	0.82	0.93	0.58	1.03
6. Total (LT+IMF+ST Int.)	4.44	6.50	10.55	16.39	9.81	17.57

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Belize

Belize, located in Central America, attained independence from the United Kingdom in September, 1981. With a total population of around 179,800 people occupying an area of about 22,000 square kilometers, the population density of Belize is extremely low, about 8.2 persons per square kilometer. The country is endowed with abundant natural resources. Its GNP per capita was US$1,460 in 1988. The country's principal economic activities include the production of sugar, bananas, citrus, fishing, light manufacturing and tourism. The economy relies considerably on imports to satisfy domestic consumption and practically all investment requirements. Income is fairly evenly distributed, with the private sector being the dominant sector of the economy.

Recent Economic Developments

The economy expanded steadily during the 1960s and most of the 1970s, with real GDP growing at about 5 percent per annum. This good economic performance resulted from the expansion of the sugar industry, the re-establishment of the banana industry, the execution of several infrastructural works, and the establishment of a number of new industries such as an export-oriented garment factory and several import-substitution industries (cigarettes, flour mill, beer and a fertilizer mixing plant).

Between 1980 and 1983, however, there was little or no growth in GDP. The reasons for this are diverse. Belize's terms of trade deteriorated steadily as a result of lower international sugar prices. An outbreak of smut diseases in 1980 and 1981 necessitated substantial replanting of sugar cane. Re-export trade with Mexico—an important part of the service sector—was severely reduced following the Mexican debt crisis and devaluation in 1982. Also, the lack of adequate port, road, communications and electricity facilities impeded the development of export-oriented production activities which could have helped diversify the economy.

As a result of the weak economic performance, the financial situation of both the central government and the public enterprises deteriorated, with public sector savings becoming negative in 1982 and 1983. Faced with these developments, the government enforced in mid-1984 a policy of expenditure restraint, particularly in central government operations. Furthermore, a comprehensive range of revenue measures was introduced and tariffs for electricity services increased. The government's adjustment program did not result in any significant loss in GDP growth performance. Real GDP increased by 2 percent in 1985, below the 4.4 percent achieved one year earlier. In addition, the deficit on the current account of the balance of payments narrowed in 1984 and 1985, as imports stagnated and exports expanded. The improved performance continued in 1986 as a consequence of growing exports of agricultural products. Real GDP growth was, in 1986, 5 percent.

In 1987 the economy grew by almost 14 percent in response to continued good economic management and a favorable external environment. Impelled by an export expansion, the agriculture sector grew by 16 percent while manufacturing expanded by 8 percent. Public sector savings improved from 5.5 percent of GDP during 1985/86 to about 8.5 percent during 1987/88. Preliminary data indicate a current account surplus of about 14 percent of GDP during the 1988/89 fiscal year. In 1988, real GDP grew by 4.5 percent. The deficit of the current account of the balance of payments reached 6 percent of GDP in 1988 because of the growth of imports which, in turn, reflected the improved economic activity. At the end of 1988, central bank foreign exchange reserves increased to an equivalent of four months of imports of goods.

Development Issues and Growth Prospects

Given the limited size of the domestic market, Belize's development can only be based on an export-oriented strategy, utilizing its potential in agriculture, livestock, fishing and agro-processing industry. The previous government, elected in early 1985, focused on accelerating public sector reforms and provided increased encouragement to foreign investments to further develop the country's natural resources. The export-oriented strategy is to be continued, as stated by the new government, with additional efforts being made to expand the country's tourism potential. In this regard, Belize's longer-term growth prospects are likely to be constrained unless two key issues are addressed. First, labor shortages are having an adverse effect on manufacturing because of the increased demand for labor by construction and tourism activities. Second, the coming on stream of a single EEC market in 1992 may have an adverse impact on the preferential treatment enjoyed by Belize.

Belize's substantial agricultural potential has remained largely underutilized. The government is cognizant of this potential and attaches priority to the sector. There is also recognition of the crucial role that the private sector must play in this growth and policies conducive for this have been created. Land tenure policies are sound, and the land tax system is designed to discourage the holding of unutilized private land for speculative purposes. The government owns about 20 percent of the total land resources, which is available for sale to farmers and investors, at relatively low prices, provided that the land will be developed with a coherent program. The uncertainty of the country's export earnings as a result of the past fluctuations in sugar prices has led the government to embark on programs to diversify its agricultural export products and markets. Livestock and citrus production are being promoted and encouraging initiatives have already taken place with respect to cocoa and pineapple. These efforts have brought some success in market development, with increasing agricultural exports to non-traditional markets (citrus to Trinidad and Tobago and livestock to other Caribbean countries).

In the past, the government's policy of import substitution in the industrial sector led to the establishment of small industries. This policy, reflected in the pattern of import license allocation and the granting of development concessions, has protected local manufacturers, many of whom are inefficient both in terms of the price and quality of their products. Investment incentives offered are based upon the CARICOM (Caribbean Community) Treaty's harmonization of incentives for firms located within the common market, and have often been reinforced by the granting of local monopoly rights through prohibition of competing imports.

Belize is endowed with considerable tourism potential, which had been neglected by the government. However, in recent years higher priority is being attached to it. Improvements in the transport infrastructure currently under way should facilitate this development. Visitor arrivals increased by about 50 percent between 1984 and 1988, and further efforts are being made to expand this growth. A major constraint to this effort has been the lack of financial resources made available to the Tourist Board as a result of the government's fiscal difficulties. It is expected, however, that the flow of resources to the Tourist Board will increase following improvements in the fiscal situation and of the increasing importance which the government is attaching to the sector.

Government policies are conducive to economic development and investment by both domestic and foreign investors. In the medium-term, however, the economy will still be highly vulnerable to events in international markets, and little relief from this vulnerability can be expected until export activities have become more diversified. The government is making a concerted effort to increase the operating efficiency of the public enterprises, and steps have already been taken to improve the management of most public enterprises. The Banana Control Board, and its holdings, are being divested and the Marketing Board is undergoing major improvements in its management structure. With the improvements envisaged in public finances, the public investment program can expand to consider the country's infrastructural needs.

GDP is likely to grow at about its recent rate over 1990-92 on the assumption of a continuation of the broad based recovery in the major sectors. The agricultural sector can be expected to grow as a result of an expansion of non-sugar activities, implying a gradual diversification of the economy, with sugar nevertheless continuing to play a major role. The balance of payments should improve over the medium-term, predicated upon improvements in the terms of trade and a steady expansion of non-sugar exports. As a result, the current account deficit of the balance of payments is projected to be eliminated during 1990-92, after an increase to about 4 percent of GDP in 1989. These levels are broadly in line with expected net official capital inflows, the bulk of which is expected to continue to be on concessional terms.

The fiscal difficulties and the worsening balance of payments performance experienced during 1980-83 contributed to a rapid increase in the medium- and long-term external debt, which rose from an equivalent of 27 percent of GDP in 1980 to 55 percent of GDP at the end of 1987. During 1988, however, the external debt to GDP ratio fell to 44 percent. Debt service remains low as the bulk of the debt, about 70 percent, is still on concessionary terms. At the end of 1988, Belize's external debt was US$134 million and its service payments represented about 7 percent of exports of goods and services.

In order to fulfill its investment program in infrastructure, Belize will continue to rely on external financing from official sources. Furthermore, the composition of this debt is likely to change gradually as grants are reduced and more loans are contracted on conventional terms. However, the expected increase in exports of goods and non-factor services will maintain the external debt service ratio at about 1988 levels during 1990-95. These ratios are within manageable limits, particularly given the steady improvements in public sector finances over the past two years.

In 1988, the Bank's share in Belize's outstanding and disbursed public and publicly guaranteed external debt was 10.2 percent; its share in Belize's external debt service was 9.6 percent.

BELIZE

Mid-1988 Population (mils.)	0
1988 Per Capita GNP in US$:	1,460

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rates(% per annum) (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.8	5.6	3.6	4.5	..
Net Indirect Taxes	..	..	11.5	16.8	..	..	..	..	..	..	..
Agriculture	..	..	26.4	18.9	..	..	..	5.8	0.6	-3.9	..
Industry	..	..	21.1	18.8	..	..	..	7.7	1.8	5.8	..
(of which Manufacturing)	..	..	14.4	10.5	..	..	..	5.9	0.0	1.0	..
Services	..	..	41.0	45.5	..	..	..	2.3	4.1	3.7	..
Resource Balance	..	..	..	-2.5	-4.3	..	..	..	..	..	..
Exports of GNFS	..	..	..	56.8	61.3	..	..	..	..	..	..
Imports of GNFS	..	..	..	59.3	65.6	..	..	..	..	..	..
Total Expenditures	..	..	..	102.5	104.3	..	..	..	..	..	..
Total Consumption	..	..	..	78.3	77.8	..	..	..	..	..	..
Private Consumption	..	..	..	59.1	58.9	..	..	..	..	..	..
General Government	..	..	..	19.2	18.9	..	..	..	..	..	..
Gross Domestic Investment	..	..	..	24.2	26.4	..	..	..	..	..	..
Fixed Investment	..	..	..	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	..	11.6	21.7	22.2	..	..	..	..	..	..
Net Factor Income	-0.5	-5.2	-4.1	-3.0	-3.3	-3.3	..	..	..	..	..
Net Current Transfers	..	..	..	..	..	..	..	..	..	..	..
Gross National Saving	..	..	7.5	24.7	24.0	..	..	..	..	..	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	168	264	397	504	526	556	5.8	5.6	3.6	4.5	5.7
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	167	256	392	489	510	539	5.6	6.9	3.3	4.3	5.7
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

	(1987 = 100)						*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	72.2	96.8	97.7	100.0	..	..	..	..	4.5	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	87.7	93.0	95.6	100.0	104.0	111.6	3.8	7.4	2.2	4.0	7.3
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.0	2.0	2.8
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	..	74.4
Gross Domestic Saving	..	..	53.9
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	..	..	..	..
Industry	..	..	..	..
Services	..	..	..	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.SUGAR	..	..	..	..	..	..	48	23	32	31	35	..
X.MAN.TEXT	..	..	..	..	..	..	14	16	16	16	20	..
X.FOOD.X	..	..	..	..	..	..	6	25	18	24	30	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	14		9	16	10	..
Total Exports FOB	..	..	..	..	..	..	82	64	75	87	95	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	33	31	29	32	37	..
Fuel and energy	92.6	81.5	88.9	100.0	..	..	27	22	17	19	19	..
Other Consumer Goods	..	..	..	..	..	..	16	15	16	21	24	..
Other Intermed. Goods	..	..	..	..	..	..	..	16	17	20	27	..
Capital goods	..	..	..	..	..	..	44	45	43	51	71	..
Total Imports CIF	..	..	..	..	..	..	120	128	122	143	177	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	..	128	135	158	185	200
Merchandise (FOB)	..	90	92	103	119	118
Non-Factor Services	..	38	42	55	66	82
Imports of Goods & NFS	..	141	147	174	216	215
Merchandise (FOB)	..	114	108	127	161	183
Non-Factor Services	..	27	39	47	55	32
Resource Balance	..	-13	-12	-16	-30	-15
Net Factor Income	..	-10	1	-3	-1	0
(interest per DRS)	1	7	6	6	6	6
Net Current Transfers	0	20	15	15	14	0
(workers' remittances)	0	21	17	16	15	..
Curr. A/C Bal. before Off. Transf.	..	-4	5	-4	-17	-15
Net Official Transfers	..	13	13	17	11	10
Curr. A/C Bal. after Off. Transf.	..	9	17	14	-6	-5
Long-Term Capital Inflow	..	10	8	7	30	18
Direct Investment	..	4	5	7	13	5
Net LT Loans (DRS data)	13	13	0	5	7	13
Other LT Inflow (Net)	..	-6	3	-4	11	1
Total Other Items (net)	..	-17	-14	-9	-3	..
Net Short Term Capital	..	-1	-7	-5	-1	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	..	-16	-6	-5	-2	3
Changes in Net Reserves	-2	-2	-12	-12	-22	..
Net Credit from the IMF	..	6	1	0	-4	0
Other Reserves Changes	-2	-8	-13	-12	-18	..
As Share of GDP:						
Resource Balance	..	-6.6	-5.7	-6.4	-11.1	-4.9
Interest Payments	0.5	3.4	2.7	2.3	2.1	2.1
Current Account Balance	..	-1.9	2.2	-1.5	-6.3	-4.9
Memorandum Items:						
Reserves excl. Gold (mil. US$)	13	15	27	36	52	60
Reserves incl. Gold (mil. US$)	13	15	27	36	52	60
Official X-Rate (LCUs/US$)	2.00	2.00	2.00	2.00	2.00	2.00
Index Real Eff. X-R Base 1980	98.05	131.37	117.75	109.74	103.30	102.97
GDP (millions of current US$)	174	196	211	252	274	311

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	23.4	31.0	..	..	..	..	4.9	..	..	..	..
Current Expenditures	18.9	25.5	..	..	..	..	8.6	..	..	..	..
Current Budget Balance	4.5	5.5	7.3	8.4	..	..	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	12.1	10.8	10.4	12.7	..	..	-5.2	..	..	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-7.6	-5.3	-3.1	-4.3	..	..	..	..	..	..	..
Official Capital Grants	3.7	2.6	3.4	2.4	..	..	-6.0	..	..	..	..
External Borrowing (net)	2.2	4.2	2.2	5.1	..	..	7.4	..	..	..	..
Domestic Non-Bank Financing	0.5	-0.9	-4.8	-1.8	..	..	..	..	..	..	..
Domestic Bank Financing	1.2	-0.5	2.3	-1.3	..	..	-0.9	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	13	13	0	5	7	13	47	95	108	139	122	134
Official Creditors	8	17	5	5	0	7	40	79	96	126	103	109
Multilateral	4	3	-1	-1	1	4	22	36	38	55	42	46
of which IBRD	0	2	0	1	1	5	0	5	7	9	9	14
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	3	14	6	5	-1	2	17	43	58	72	61	63
Private Creditors	6	-4	-4	0	7	6	7	16	12	13	19	25
Suppliers	6	-4	-3	-1	-1	1	7	8	5	4	2	3
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	13	13	0	5	7	13	47	95	108	139	122	134
IMF Credit	0	5	0	-2	-3	-4	0	11	12	11	8	3
Net Short-Term Capital	..	-1	-7	-5	-1	..	16	13	11	14	7	0
Total incl. IMF & Net ST	..	17	-7	-2	3	..	63	119	131	164	136	138

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	5.68	6.49	6.77	7.57	10.21
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	0.00	5.68	6.49	6.77	7.57	10.21
Share of LT Debt Service						
1. IBRD as % of Total	0.00	1.85	4.26	7.75	9.29	9.59
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	0.00	1.85	4.26	7.75	9.29	9.59
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	62.57	66.95	76.88	57.53	..
2. IMF Credit/Exports	..	6.92	7.27	6.31	3.69	..
3. Short-Term Debt/Exports	..	8.56	6.83	7.75	3.12	..
4. LT+IMF+ST DOD/Exports	..	78.05	81.05	90.94	64.35	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	26.95	48.43	51.04	55.12	44.42	43.22
2. IMF Credit/GDP	0.00	5.35	5.54	4.53	2.85	1.06
3. Short-Term Debt/GDP	9.20	6.63	5.21	5.56	2.41	0.00
4. LT+IMF+ST DOD/GDP	36.15	60.41	61.79	65.21	49.68	44.28
Debt Service /Exports						
1. Public & Guaranteed LT	..	10.67	8.76	7.14	6.62	..
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	0.00	..
3. Total Long-Term Debt Service	..	10.67	8.76	7.14	6.62	..
4. IMF Repurchases+Serv. Chgs.	..	0.26	1.37	1.55	1.70	..
5. Interest only on ST Debt	..	0.79	0.43	0.61	0.38	..
6. Total (LT+IMF+ST Int.)	..	13.70	11.80	9.30	13.25	..

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Benin

From independence in 1960 until the 1972 revolution which brought the military government of Colonel Kerekou to power, Benin underwent instability and frequent changes in government. The country enjoyed a comparatively long period of political stability until 1988. Over the past two years, domestic opposition to the government grew steadily, partly as a consequence of the government's difficulties in paying teachers' and civil servants' salaries on time. While salary arrears were an important proximate cause of the internal turmoil, there was a profound general discontent with the political system and those political leaders who had mismanaged the public sector and enriched themselves therefrom. By end-1989, anti-government demonstrations had reached crisis proportions, bringing to a standstill the country's entire economic and administrative apparatus.

Since February 1990, the situation in Cotonou has changed dramatically for the better. A National Conference representing all groups in the nation abolished the old constitution based on the political ideology of Marxism-Leninism, and set up a process to draft and ratify a new constitution and hold multi-party elections by March 1991. A Prime Minister was made effective head of government for an interim period of 12 months with a mandate to restore and create a consensus for the structural adjustment process, clean up corruption, and introduce needed public institutional reforms. Thus, Benin has become one of the first African countries to profoundly and peacefully transform its political system and institutions in order to create a multi-party democracy.

Benin is a small, poor nation with a population of 4.5 million and an estimated 1988 per capita GNP of US$340. Agriculture, the most important sector of the economy, employs three-fourths of the active population and accounts directly for about 40 percent of GDP and around one-third the foreign exchange earnings. There is a small industrial sector consisting of some import substitution, and agricultural processing, which contributed an estimated 12 percent to GDP during 1987-89. Oil extraction, with proven deposits estimated to last only through 1992, limestone mining, which is the basis of an integrated cement complex, and sugar production are the most recently developed economic activities. The tertiary sector is dominated by trade and transit activities that link economic activities in Benin to those in neighboring economies.

The economy's traditional growth sources are agriculture and entrepôt/transit trade. Benin enjoys overall food self-sufficiency, with an estimated 20 percent of the output being traded informally to Nigeria. The main cash crops are oil palm and cotton. Oil palm production has stagnated in recent years owing to increasingly unfavorable climatic conditions, but cotton has performed well, showing good response to sound producer pricing policies and the regular, prompt supply of modern inputs. Growth potential for foodcrops production is favorable in light of the agronomic conditions and the demand in neighboring countries which holds up even during periods of economic austerity.

The performance of the overland corridor and seaport which carries part of the overseas trade of neighboring countries is subject to the pace of activity in those economies. It is also influenced by the high quality of the services offered by the Togo route, a competitor to which much high-value traffic has been lost in recent years.

Past Development Strategy

Economic policy during much of the 1970s emphasized national control and self-reliance in the economy. It was felt that the best way to ensure this was to put much of the economy under state ownership. Accordingly, most foreign-owned businesses were nationalized and many new enterprises were created, giving the state control over a significant portion of the modern sector of the economy — banks, industry, and in agriculture where state farms were established. In small-scale agriculture, artisanal activities, and retail trade, private interests still dominate.

The first medium-term development plan (1977-80) was used to further advance the goal of an expanded state-owned modern economy. Three large projects were included in the plan: Sèmè petroleum, Savé sugar and Onigbolo cement, the last two jointly sponsored with Nigeria. The first three years of the execution of the plan were years of oil- and uranium-related prosperity in Nigeria and Niger, respectively. The spillover effects of the oil and uranium booms, combined with the benefits of active domestic investment, enabled the Beninese economy to grow at an average rate of 4 percent per annum during 1977-80. The strong re-export trade linked with the favorable conditions in the neighboring countries strengthened revenues and the trade balance during those early years of the four-year plan. The onset of economic difficulties at the end of this period, however, led the authorities to reassess, albeit in a partial manner, their general policy orientation.

Recent Economic Developments

The investment and trade activities responsible for the earlier strong growth had run their course by end-1982. On the one hand, the investment expenditures/GDP ratio declined from an unsustainably high of 33 percent in 1982 to only 12 percent in the 1986-88 period. On the other hand, falling world demand for oil and uranium i) curtailed activity in Nigeria and Niger, ii) reduced demand for Benin's manufactures and transit services, and iii) led Nigeria to close its borders with Benin for much of 1984-86. Overall economic growth averaged negative one percent over the 1986-88 period, despite steady growth in cotton output and production of crude oil beginning in 1983. Preliminary GDP estimates for 1989 indicate a further decline of 1.4 percent.

Public finances also deteriorated during this time. The expanding public sector increased personnel and operating expenditures, raising current budget expenditure from approximately 13 percent of GDP during 1981-84 to an average of 15 percent during 1985-88. Although capital expenditures have fallen to more modest levels since 1980-84, the overall deficit still averaged about 9 percent of GDP during 1986-89 due to i) a decline in transit trade activity and related revenues, and ii) an increase in personnel and other extra-budgetary expenditures through 1987. The government drew down all its deposits in the banking system to finance the deficit, and became a net debtor to the banking system by 1984. Domestic arrears accumulated by the end of 1987, and delays in meeting the monthly payroll became frequent in 1987. Fiscal revenues dropped by 28 percent in 1989 and the overall budget deficit excluding grants (on commitment basis) reached 9.5 percent of GDP due, in part, to an intensified illiquidity of the banking system and poor revenue performance.

The balance of payments has reflected these shifts in the macro-economy. During 1981-82 the current account deficit reached 25 percent of GDP when the investment/GDP ratio attained 30 percent. With the completion of the large projects, capital imports declined in 1983 and 1984. Together with higher export earnings arising from the start of petroleum production and higher cotton exports, this led to a substantial improvement in the current account balance. Despite declining world market prices for cotton and crude oil in 1985-86, the current account deficit/GDP ratio declined further to about 9 percent of GDP during 1985-88 owing to a further decline of imports, and notwithstanding the drastic weather-related decline in cotton exports in the 1987/88 crop year. Preliminary data for 1989 show a record low current account deficit/GDP ratio of about 5.4 percent due to an extraordinary good performance of cotton output coupled with more than 29 percent drop of commodity imports, especially that of capital goods for investment.

With the implementation of the petroleum, sugar and cement projects, external debt outstanding grew rapidly. According to IBRD debt data (DRS), external indebtedness rose from US$337 million in 1980 to US$925 million in 1989, of which about 25 percent was owed to IDA. Since much of the debt was contracted from commercial sources there was a relative hardening of the average terms of the debt portfolio. The scheduled debt service/exports ratio (on accrual basis) rose from 5 percent in 1981 to about 40 percent during the 1988-89 period, giving rise to debt servicing difficulties.

The poor performance of the major new projects, particularly the Savé sugar complex and the Onigbolo cement plant, as a result of the failure of the expected Nigerian markets to materialize, makes them unable to service their debt. Savé and Onigbolo are governed by joint ownership with Nigeria, which also guaranteed the related debts; all debt obligations for these projects were therefore included in the 1987 rescheduling agreement concluded by Nigeria within the context of the Paris Club. By June 1989, the government had in place a satisfactory reform program, and Benin concluded its first Paris Club rescheduling of arrears, with current principal and interest obligations through June 1990 on Toronto terms.

The deterioration of the economic situation also affected the domestic banking system. The growing parastatal sector relied on the banking system for domestic financing. As an increasing number of the enterprises turned insolvent, the banks' portfolios deteriorated. In addition, many private sector borrowers defaulted on their payments. As a result, at end-1987, a high percentage of outstanding loans were non-performing, with public enterprises accounting for the majority. The banking system, in turn, had debts with the central bank of the West African Monetary Union, which rose further by mid-1988. The consequent exhaustion of access to refinancing at the central bank compounded the liquidity shortage resulting from the deterioration of the portfolio and created a banking system crisis in the course of 1988, with the result that the banks could not extend credit, service transfers or honor withdrawal requests.

Initial Reaction to the Economy's Difficulties

In recognition of the many problems created by the failed policies, the government began in 1982 to introduce selected measures aimed at reducing distortions and improving the performance of the economy. Starting with cotton in the 1981/82 crop year, agricultural producer prices were raised progressively and input subsidies are being phased out. At the same time, reforms have been initiated in the pricing, personnel and management policies affecting public enterprises, and some uneconomic enterprises have been closed. As part of the policy framework of the second medium-term plan (1983-87), the government adopted a policy of reducing its direct involvement in productive activities and according private capital a greater role in the development process. Further, a program of technical assistance for economic management was initiated in 1985 to strengthen the performance of government in a number of critical areas.

In order to deal with the financial disequilibria and broaden the scope of the reforms, the government set up a National Adjustment Commission in May 1986 to discuss and eventually negotiate possible stabilization and structural adjustment programs. As a first step toward easing the budgetary deficit, the government decided in 1988 to reduce personnel expenditures by 10 percent in the public sector. Work began thereafter on the preparation of a financial stabilization and adjustment program, followed by a thorough review of Benin's development strategy.

A New Development Strategy

The partial reforms introduced did not prevent a further deterioration of the economic situation, and in 1989 the government launched a broad reform program which could deal effectively with the economy's problems. It seeks to (i) reduce the size and role of the public sector in the economy so as to release resources to more competitive uses; (ii) focus a rationalized public sector on activities that belong more in the public domain, and improve its performance in those areas; (iii) reform trade policy, deregulate economic activity and actively promote the growth of the private sector; (iv) and restructure the banking system to enable it to resume effective financial intermediation in the economy, including establishing new commercial banks with majority private sector participation.

Social Dimensions of Adjustment

While the cotton sector gains raised incomes for many rural families, other reform measures such as those in the parastatal sector have resulted in income losses among laid-off employees. In order to alleviate the social burden of personnel layoffs, funds have been provided by Canada under a public enterprise sector rehabilitation project to finance the training and redeployment of the affected workers. A Social Fund has also been created to finance non-salary health and education expenditures at levels necessary to protect these vital services which are threatened by cuts being made in the budget as part of the adjustment effort. In addition, there is also a well-funded program of voluntary separation from civil service (PDV) with financial compensation. These initiatives will be reinforced by others, currently being devised, to help workers likely to be displaced in the course of implementing the broad program reintegrate into the economy. The problem of urban unemployment will also be addressed through a high-intensity public works program directed toward rehabilitating and expanding the road network and sanitation system in Cotonou, which is expected to provide employment for approximately 1,500 people. As a means of promoting small and medium-scale enterprises, and to assist those leaving the civil service under the PDV, and new university graduates to identify, prepare, and carry out new projects, an employment and enterprise promotion unit has been set up.

Medium-Term Prospects

Over the medium-term Benin's growth is likely to reverse its trend and levels achieved during 1986-89, reaching about 3 to 4 percent or slightly above the population growth rate of 3.2 percent. The key constraints to faster growth are i) the decline in the dollar vis-a-vis the CFA franc and the resulting loss of international competitiveness of Beninese tradeable goods, ii) the slowdown in the demand for Benin's goods and services in neighboring countries which are also experiencing economic difficulties, and iii) the continuing poor performance of the heavy industrial investments made during the 1978-83 period. The cement and sugar projects, in particular, have large unmet infrastructure and working capital needs aside from unresolved questions concerning the market outlets for their products and poor price prospects. The output of petroleum has fallen below the levels achieved in 1984-85 following the interruption of the field development program and the projected depletion of the Sémé oil deposits by 1992. Adjustment has begun in the very important cotton subsector in response to the fall in world market prices during 1986-87. The contribution of the cotton subsector to growth and export revenue remains important. Medium-term constraints in terms of productivity and ginning capacity are being addressed so as to increase treadable cotton products without necessarily increasing gross output.

The public finance situation is also likely to remain difficult in the years ahead. The overall deficit excluding grants (on commitment basis) to GDP ratio is projected to decline only gradually as the fiscal system is reformed under the adjustment program. Measures being introduced to achieve the fiscal targets include the rationalization of expenditure and taxation as well as the reinforcement of tax administration and revenue collection. With regard to expenditure, while efforts are being made to cut the personnel and operating cost needs of the public service, there remain the recurrent cost requirements of recent major investments, the need to recapitalize a number of public enterprises and restructure the banking system, and external debt service obligations. The relatively low world market price for cotton has meant an additional burden for public finances. In order to eliminate the subsector's need for budgetary subsidies, adjustments being made include i) a 5 percent reduction in the producer prices in the 1989/90 crop year, ii) cost reductions at various stages in the cotton production chain, and iii) a pricing mechanism linking future producer prices with world market prices but with a floor to retain an element of stability in farmers' expectations.

Benin's balance of payments is difficult to forecast due to the large volume of unrecorded exports. It is expected, however, that the current account deficit in relation to GDP (9.6 percent in 1988) will decline to 8.3 percent in 1990 after having fallen to 5.4 percent in 1989, due to the 29 percent decline in imports, and will decline further by end-1991. This improvement would emanate from higher output of foodstuffs which will result in a fall in imports of food items, and increased exports of food grains consequent on the liberalization of foodcrop marketing. As a result of a drastic decline of public investment in 1989, a relatively large level of concessional borrowing will be required in the medium-term to restore the 1988 investment/GDP ratio of 13 percent by 1991. Nonetheless, the debt service/exports ratio (on accrual basis) is projected to fall, from 45 percent in 1988, assuming new Paris Club rescheduling agreements through 1991, and more importantly, future external borrowings on exclusively concessional terms.

BENIN

Mid-1988 Population (mils.)	4
1988 Per Capita GNP in US$:	340

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rates(% per annum) (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988p*	*1989e*	*1965-73*	*1973-80*	*1980-88*	*1988p*	*1989e*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.6	2.2	1.7	1.8	-1.4
Net Indirect Taxes	6.6	10.1	9.2	5.4	4.7	4.8	..	..	..	-6.3	-0.8
Agriculture	54.7	41.3	43.4	37.6	40.8	43.4	..	3.4	4.2	7.9	5.1
Industry	7.9	11.1	11.1	12.9	11.7	11.5	..	0.7	5.8	-0.6	-5.2
(of which Manufacturing)	..	7.4	5.3	5.0	4.5	4.5	..	-2.6	7.4	0.3	-4.5
Services	30.8	37.6	36.3	44.1	42.7	40.4	..	1.5	-1.0	-0.2	-5.9
Resource Balance	-8.2	-9.0	-24.8	-9.0	-9.6	-3.2	..	..	..	..	..
Exports of GNFS	12.9	27.9	28.2	26.0	23.5	23.3	16.2	7.8	-4.1	-11.0	-0.9
Imports of GNFS	21.2	36.9	53.0	35.0	33.1	26.5	11.9	7.6	-6.2	-5.5	-25.6
Total Expenditures	108.2	109.0	124.8	111.1	112.1	104.2	3.2	3.1	0.0	3.7	-13.2
Total Consumption	97.5	92.9	106.3	98.8	99.1	95.0	2.4	1.8	2.6	4.5	-11.4
Private Consumption	86.6	80.7	95.7	84.2	89.6	86.6	2.1	2.7	2.8	6.3	-10.8
General Government	10.8	12.2	10.6	14.7	9.5	8.4	5.0	-3.1	1.4	-8.9	-16.7
Gross Domestic Investment	10.8	16.0	18.6	12.3	13.0	9.2	9.1	9.0	-11.5	-7.4	-27.0
Fixed Investment	..	..	..	12.7	11.6	10.1	..	..	..	-11.4	-23.7
Changes in Stocks	..	..	..	-0.4	1.4	-0.9	..	..	..	-5.2	-28.7
Gross Domestic Saving	2.5	7.1	-6.3	1.2	0.9	5.0	..	-1.6	..	-5.8	..
Net Factor Income	0.0	0.0	-0.3	-2.6	-1.8	-2.6	..	..	..	..	..
Net Current Transfers	0.0	0.8	9.4	5.1	4.9	3.4	..	..	..	..	..
Gross National Saving	2.5	7.9	2.8	3.7	4.0	5.8	..	14.7	-16.8	14.8	..

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988p*	*1989e*					
Gross Domestic Product	283	357	429	501	507	520	2.6	2.2	1.7	1.8	-1.4
Capacity to Import	31	97	119	106	95	131	17.3	4.8	-2.7	-10.2	38.0
Terms of Trade Adjustment	6	28	2	0	2	34	..	..	..	..	..
Gross Domestic Income	289	386	431	501	509	553	3.3	1.6	2.0	1.6	8.6
Gross National Product	283	357	428	488	498	505	2.6	2.3	1.4	2.0	1.4
Gross National Income	289	386	430	488	500	539	3.3	1.7	1.8	2.4	7.7

	(1987 = 100)						*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988p*	*1989e*	*1965-73*	*1973-80*	*1980-88*	*1988p*	*1989e*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	56.5	94.1	96.4	100.0	102.7	106.3	3.0	11.7	8.4	2.7	3.5
Implicit Expenditures Defl.	56.4	94.2	96.4	100.0	103.3	..	2.3	12.3	7.7	3.3	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.7	2.7	3.2
Labor Force	..	..	..
Gross Natl. Income p.c.	0.6	-1.0	-1.4
Private Consumption p.c.	-0.5	0.0	-0.4
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	4.5	3.4	-3.7
Marginal Savings Rates:			
Gross National Saving	24.5	-38.1	11.1
Gross Domestic Saving	21.1	-112.4	37.5
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988p*
Agriculture	83.0	77.6	70.2	..
Industry	4.7	5.6	6.7	..
Services	12.4	16.8	23.1	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	*Volume Index* 1980	1985	1986	1987	1988p	1989e	*Value at Current Prices (millions US$)* 1980	1985	1986	1987	1988p	1989e
X.BEV.COCOA	..	..	..	..	..	..	19	3	3	0	0	0
X.FUEL	13.1	143.2	94.2	100.0	88.0	90.6	12	67	20	32	22	26
X.FOOD.FAT	115.6	106.8	107.6	100.0	85.9	87.6	8	6	4	4	5	4
X.OAGRI.COTTON	7.3	59.0	49.5	100.0	55.8	88.5	5	50	33	55	38	58
Cement	78.7	83.9	87.5	100.0	88.0	78.8	0	0	0	0	0	0
Residual	41.6	57.9	128.9	100.0	97.0	85.6	149	72	126	168	166	145
Total Exports FOB	47.7	72.7	78.3	100.0	75.0	84.8	193	198	186	260	232	234
F. Merchandise Imports												
Food	85.1	84.2	137.0	100.0	96.3	69.8	114	57	121	106	108	76
Fuel and energy	181.8	381.6	135.5	100.0	96.2	71.5	47	50	23	20	21	15
Other Consumer Goods	82.4	80.1	31.7	100.0	101.3	81.2	137	50	29	73	75	57
Other Intermed. Goods	76.9	89.1	127.0	100.0	98.2	72.6	111	65	121	114	118	85
Capital goods	151.7	39.6	48.0	100.0	95.9	64.3	179	24	38	94	95	62
Total Imports FOB	114.0	94.2	97.5	100.0	96.6	70.4	587	244	332	408	415	294

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988p	1989e
Merch. Exports Price Index	109.6	157.2	105.4	100.0	118.0	112.8
Merch. Imports Price Index	88.7	95.1	96.3	100.0	104.3	108.2
Merch. Terms of Trade	123.6	165.1	109.4	100.0	113.1	104.2

H. Balance of Payments	*US$ millions (at current prices)* 1980	1985	1986	1987	1988p	1989e
Exports of Goods & NFS	306	242	258	352	333	331
Merchandise (FOB)	222	177	186	260	232	234
Non-Factor Services	84	66	72	92	101	97
Imports of Goods & NFS	608	391	439	550	547	401
Merchandise (FOB)	499	276	332	408	415	293
Non-Factor Services	109	115	106	143	132	108
Resource Balance	-302	-149	-180	-199	-219	-70
Net Factor Income	-3	-29	-33	-43	-45	-44
(interest per DRS)	3	14	22	15	8	17
Net Current Transfers	107	53	69	85	87	57
(workers' remittances)	107	53	69	85	82	57
Curr. A/C Bal. before Off. Transf.	-197	-125	-144	-157	-177	-58
Net Official Transfers	63	29	35	59	71	55
Curr. A/C Bal. after Off. Transf.	-134	-96	-110	-98	-105	-3
Long-Term Capital Inflow	66	93	22	13	-11	66
Direct Investment	4	1	1	1	1	1
Net LT Loans (DRS data)	56	12	39	54	41	41
Other LT Inflow (Net)	5	81	-18	-43	-54	24
Total Other Items (net)	49	-11	92	9	116	33
Net Short Term Capital	212	115	121	119	0	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-163	-126	-29	-110	116	33
Changes in Net Reserves	19	14	-4	76	1	-96
Net Credit from the IMF	2	0	0	0	..	..
Other Reserves Changes	17	14	-4	76	1	-96
As Share of GDP:						
Resource Balance	-26.3	-13.3	-12.4	-11.9	-12.4	-4.2
Interest Payments	0.3	1.2	1.5	0.9	0.4	1.0
Current Account Balance	-17.2	-11.2	-9.9	-9.4	-10.0	-3.4
Memorandum Items:						
Reserves excl. Gold (mil. US$)	8	4	4	4	4	3
Reserves incl. Gold (mil. US$)	15	8	8	9	9	8
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	..	..	..	..	..	..
GDP (millions of current US$)	1,147	1,113	1,453	1,668	1,765	1,681

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988p	1989e	Growth Rates 1980-84	1986	1987	1988p	1989e
Current Receipts	20.3	11.8	12.1	11.7	11.3	7.2	25.2	-6.6	6.3	..	..
Current Expenditures	16.8	16.6	15.5	16.0	13.7	11.5	45.5	3.5	5.7	..	..
Current Budget Balance	3.5	-4.8	-3.4	-4.3	-2.4	-4.3	-6.5	-81.9	-11.4	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	13.7	5.9	6.4	6.3	6.3	4.8	41.5	-1.5	..	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-10.2	-7.7	-8.8	..	..	..	-91.2	-18.9	..	..	..
Official Capital Grants	6.3	5.0	1.9	..	..	..	-4.2	-49.0	6.6	..	..
External Borrowing (net)	2.3	2.8	2.3	..	..	..	9.3	-14.0	..	..	..
Domestic Non-Bank Financing	0.9	0.4	..	..	..	..	-93.5	..	..	..	..
Domestic Bank Financing	1.7	-1.1	..	..	..	..	52.0	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988p	1989e	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988p	1989e
Public & Publicly Guar. LT	56	12	39	54	41	41	337	664	767	927	904	925
Official Creditors	56	29	57	56	41	74	219	347	427	532	541	564
Multilateral	23	24	43	38	30	58	104	229	288	359	372	408
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	12	19	26	21	22	28	52	125	158	196	209	230
Bilateral	33	5	14	17	11	17	115	119	139	173	170	156
Private Creditors	0	-18	-18	-1	0	-34	118	317	341	395	362	362
Suppliers	0	-2	-2	0	0	-2	20	23	25	31	27	4
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	56	12	39	54	41	41	337	664	767	927	904	925
IMF Credit	10	-1	-3	-3	-3	-2	16	11	10	8	4	2
Net Short-Term Capital	212	115	121	119	0	0	68	142	166	204	147	0
Total incl. IMF & Net ST	278	125	157	170	38	39	421	818	943	1,138	1,055	927

Bank and IDA Ratios	1980	1985	1986	1987	1988p	1989e
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	15.44	18.74	20.62	21.10	23.13	38.25
3. IBRD+IDA as % of Total	15.44	18.74	20.62	21.10	23.13	38.25
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	4.55	4.26	3.13	6.00	13.22	2.85
3. IBRD+IDA as % of Total	4.55	4.26	3.13	6.00	13.22	2.85
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	81.41	225.26	234.76	212.57	218.13	238.40
2. IMF Credit/Exports	3.89	3.83	2.91	1.72	0.97	0.49
3. Short-Term Debt/Exports	16.44	48.15	50.92	46.69	35.51	0.00
4. LT+IMF+ST DOD/Exports	101.74	277.25	288.59	260.97	254.60	238.89
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	29.37	59.71	52.82	55.59	51.21	55.03
2. IMF Credit/GDP	1.40	1.02	0.65	0.45	0.23	0.11
3. Short-Term Debt/GDP	5.93	12.76	11.46	12.21	8.34	0.00
4. LT+IMF+ST DOD/GDP	36.70	73.49	64.93	68.25	59.77	55.14
Debt Service /Exports 1/						
1. Public & Guaranteed LT	2.13	13.53	16.65	6.88	4.20	22.61
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	2.13	13.53	16.65	6.88	4.20	22.61
4. IMF Repurchases+Serv. Chgs.		0.41	0.95	0.76	0.75	0.49
5. Interest only on ST Debt	2.76	2.31	2.20	1.93	1.57	
6. Total (LT+IMF+ST Int.)	4.88	16.24	19.80	9.56	22.09	23.10

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Bolivia

Bolivia faces particularly difficult development challenges. GDP fell in every year from 1980 to 1986. Bolivia is one of the poorest countries in Latin America; its 6.8 million inhabitants are poorly educated; its health indicators are among the worst in the continent. Bolivia's landlocked position and mountainous terrain keep transport costs high and access difficult. Both internal communications and links to neighboring countries are poorly developed. About one-half of the economically active population is employed in agriculture, primarily on the highlands of the altiplano where subsistence farming predominates. Although the mountains are rich in minerals, there has been insufficient exploratory work to exploit new minerals. Bolivia has important hydrocarbon resources, in particular, natural gas, but export prospects are uncertain. The manufacturing sector is small and dominated by a few agro-industrial enterprises.

Buoyant commodity prices and relative political stability provided easy access to foreign financing in the 1970s. Fixed investment increased to more than 20 percent of GDP in the mid-1970s, and for several consecutive years, Bolivia's GDP expanded at over 5 percent per year. The growth of investment reflected, primarily, large-scale public investment projects, many of which were highly questionable in terms of social payoff. Investment, as a proportion of GDP, began to decline in the late 1970s. Public and private savings declined at an even faster rate, increasing external borrowing, (particularly from commercial banks) and rapidly increasing the external debt.

By the early 1980s, severe internal and external imbalances had become apparent. Savings, investment, and with them GDP, began to contract (in absolute value) and external financing sources began to dry up. At the same time, tax collections dropped off sharply, as rapidly rising inflation eroded the real value of tax receipts, tax collection efforts deteriorated and the real tax base shrunk. With the authorities trying to maintain the size and wage levels of the public sector, the public sector deficit widened from 7 percent of GDP in 1980 to 23 percent of GDP in 1984. Given the absence of open market instruments, the impact of widening deficits could not be softened by substituting private for public savings. Instead, domestic credit expansion fueled inflation, which ran at a rate of almost 24,000 percent during the 12-month period preceding September 1985. Maintenance of a fixed exchange rate system with periodic maxi-devaluations, in the face of hyperinflation, led to a massive overvaluation of the peso with the parallel rate being, at times, as much as 20 times the official rate.

Behind the poor economic performance of the early 1980s lay deep-seated structural problems. Of primary importance was the increased role of the state and its declining effectiveness. After the 1952 revolution, the share of government in the economy assumed large proportions. Numerous state enterprises operated under confused policies without controls or support. Frequent changes of governments exacerbated uncertainties about the overall policy framework, organization, and procedures. Public sector management was exceptionally weak. These problems led to declining government revenues, uncontrolled current expenditures, and poor investment project selection and implementation performance. The financial system was characterized by a decreasing level of resource mobilization, distorted credit allocation to finance the public sector, growing solvency problems of the commercial banks, and the increasing decapitalization of the state banks. Conditions for private investment was poor, and the private sector focused on trading and other short-term activities. Capital flight was substantial and capacity was underutilized by widening margins.

The Paz Estenssoro Government

The democratically elected government of Dr. Paz Estenssoro, which took office in August 1985, thus faced an economy that had almost reached a point of chaos. The new government moved swiftly and decisively. Within weeks, it promulgated a Supreme

Decree (No. 21060) which contained the details of its New Economic Policy (NEP).

The primary objectives of the NEP were to reduce inflation rapidly, to restore external balance, and to lay the foundations for sustained economic recovery. Strict controls on public sector expenditures, increases in public sector prices, a tight monetary policy, and a sharp depreciation of the exchange rate greatly reduced the fiscal deficit and domestic credit creation. At the same time, the NEP included a comprehensive reform of economic policy to liberalize trade, labor and financial markets and provide a structure of incentives conducive to private sector development.

The key actions included establishment of an auction system to determine the exchange rate, a thorough reform of the tax system, removal of most government restrictions on private sector wage-setting and hiring practices, a virtually complete freeing of prices and interest rates, a reform of the financial system to strengthen supervision and improve bank portfolios, and sweeping trade and payments liberalization including a virtually uniform import tariff. With the assistance of the international donor community, the government established the Emergency Social Fund to mitigate the social costs of the economic crisis and if adjustment measures by raising employment (through small-scale, labor-intensive public works projects, primarily in infrastructure) and providing social services.

The new policy stance succeeded quickly in restoring macroeconomic stability. Inflation fell dramatically immediately following introduction of the NEP, and with the exception of a few, brief periods has remained low. However, the recovery of the economy has been slow. GDP dropped by 2.9 percent in 1986 (the first full year following the introduction of the NEP), in part owing to the collapse in tin prices in October of 1985. GDP grew for the first time in six years in 1987, albeit at only 2.1 percent, and by 2.8 percent in 1988 and 1989. Slow growth in output has been due to a number of factors: continued uncertainty over the permanence of policy reforms has kept savings low which, combined with the fragility of the banking system, have maintained real interest rates at exceedingly high levels; terms of trade declines and lack of payment by Argentina for Bolivian gas exports have limited government revenues, thus requiring even more restrictive fiscal and monetary policies; and rigidities in the economy due to lack of infrastructure and low human capital have slowed the necessary adjustment to the collapse of tin mining and the sharp change in economic incentives under the NEP.

The Paz Estenssoro government left office in August 1989, and can look back on an impressive record in economic policy making. The dramatic shift in incentives to rely on the market rather than the public sector for the allocation of resources has established the prerequisite for efficient development. Impressive gains have been made in improving public sector administration, including the hiring of foreign procurement agents to handle most public sector procurement, strengthened monitoring of investment projects, the comprehensive tax reform, implementation of a program to better control public funds, and reorganization of public sector agencies. Still, considerable work remains in improving the efficiency of the Bolivian economy.

Revisions to the mining, hydrocarbons, and investment codes drawn up by the Paz Estenssoro government would, if passed by Congress, provide a stable incentives framework for private sector investment. Carrying forward the privatization program would remove potential drains on Treasury revenues and permit more efficient operation of these enterprises. A reform of the civil service is necessary to establish uniform employment practices and ensure a highly qualified and adequately compensated cadre of technical staff. The planned decentralization of public services, carried out in a non-disruptive manner, should increase efficiency and the responsiveness of public services to local concerns. Most important, new initiatives are essential to improve basic health and education services and establish the literate and healthy workforce necessary for sustained development.

The Paz Zamora Administration

Despite the considerable achievements of the Paz Estenssoro administration, the new government which took office in August 1989 faced serious financial difficulties. Private sector confidence had been damaged by uncertainty over the composition and policies of the new administration, leading to a severe decline in bank deposits and international reserves. Argentina's refusal to make payments on gas exports since April and lower than expected tax revenues had increased the fiscal deficit above programmed targets. The government moved decisively to restore financial stability, by providing sufficient liquidity to the banks to pass the crisis; raise public sector prices, and conclude negotiations under which Argentina resumed payments for Bolivian gas. The government also affirmed its commitment to macroeconomic stability and the incentives framework established by the previous administration. These measures succeeded in restoring private sector confidence, and bank deposits returned to earlier levels.

Economic performance in 1989 was mixed. The 2.8 percent rise in GDP implies a modest fall in per capita consumption. Relatively slow disbursement of external funds led to a slight decline in public sector investment, although total investment rose by almost 5 percent due to some recovery in the private sector. Export revenues increased by over 20 percent (US$118 million), due to increased private sector mining and a surprisingly strong rise in nontraditional exports, which almost doubled in nominal dollars. This evidence of strong export growth and diversification is a positive sign in one of the most critical sectors in the Bolivian economy. Despite the tough measures taken late in the year, the deficit of the nonfinancial sector equaled 5.4 percent of GDP. Inflation increased in the last half of the 1989 to 30 percent (at an annual rate), due to the depreciation of the boliviano and the rise in public sector prices. However, inflation declined to below 5 percent (at an annual rate) in the first four months of 1990.

The government has made substantial progress in regularizing its relations with external creditors. The Paris Club agreed to reschedule some US$400 million of debt service payments in arrears as of June 1986, and an additional US$390 million in November 1988. A new agreement was reached with the Paris Club in March 1990 covering US$288 million in debt service payments coming due in 1990-91 (rescheduling of the 1991 payments is contingent on settlement of arrears and approval by the IMF of the third year of the ESAF program). The Paris Club accorded Bolivia the concessional rescheduling terms announced at the Toronto Summit, the first country outside of Sub-Saharan Africa to receive the "Toronto Terms." In July 1988, Bolivia finalized the repurchase of approximately half of its debt with the commercial banks at 11 cents to the dollar, using funds provided by official donors. Bolivia has retired an additional amount of debt through the ongoing debt-equity swap program, so that by April 1990 Bolivia had reduced its debt to commercial banks by two-thirds, compared to the US$683 million owed in 1987. The government is now negotiating with commercial banks to retire the remainder of this debt. Bolivia also agreed with Brazil on a means to settle Bolivia's outstanding debt to that country. Under the agreement, Bolivia can purchase Brazilian debt in the secondary markets and trade it (on a one to one basis) for Bolivia's debt which is in arrears to Brazil. Bolivia has already retired US$83 million under this program. The agreement also provided for a phased repayment of Bolivia's short term debt to Brazil and a new mechanism for settling future debt service payments. Finally, the above-mentioned agreement with Argentina eliminated Bolivia's US$700 million of bilateral debt with that country, in exchange for Argentina's arrears of more than US$300 million on gas payments. As a result Bolivia's public debt by end-1989 was US$3.7 billion, down US$700 million from end-1987 despite US$400 million of net disbursements during 1988 and 1989.

Prospects

Bolivia faces very difficult prospects over the medium-term despite success in reducing the country's debt to the commercial banks, Argentina, and Brazil. It remains burdened by an extremely high level of external debt of about 80 percent of the dollar value to its GDP, and about five times the value of its dollar exports. While Bolivia retains access to official loans (and received a substantial net inflow of foreign savings in 1988), it is unlikely that Bolivia will obtain loans on commercial terms for many years to come. The economy is dependent on a few primary commodity exports with uncertain market prospects, and the ongoing diversification of its export base will take a decade or two to build. Further, despite an impressive improvement in economic policies, the weak social and physical infrastructure will make it extremely difficult for Bolivia to achieve high rates of growth.

The economic program adopted by the present government for the period 1990-92 is aimed at consolidating stabilization efforts, and achieving a sustainable rate of growth as well as a viable balance of payments through: (i) export diversification; (ii) higher domestic savings; and (iii) price stability. The assumed average annual GDP growth from 1990-92 would end the decade long trend of falling consumption per capita. This is considered to be the minimum rate of growth to secure the political consensus necessary for sound economic management and to enable some recovery in social conditions. To support this rate of growth and assist in the diversification of the investment program, both public and private investment would have to increase sharply.

Increased investment would be financed by higher savings from domestic private and public sources, and through continued inflows of external capital. Bolivia is not expected to receive any funds from private financial institutions, owing to very high levels of debt service indicators. Therefore, capital inflows will need to be provided entirely from official sources, and at concessional terms.

Difficulties in meeting external capital requirements may increase in the 1990s, because of debt repayments that will become due and uncertainties surrounding gas exports to Argentina after the 20-year contract expires in 1992. The solution to these problems will require: (i) alternative markets for Bolivia's natural gas exports, most likely through selling electric power and other natural gas products to Brazil; (ii) additional external financing at concessional terms; and (iii) further debt relief from bilateral creditors. In order to accomplish this, the government will need to maintain its commitment to macroeconomic stability, to a reduced role of the state, and to the greater efficiency of public sector investment. Further, the achievement of sustained growth will not be possible without a concurrent improvement in the human infrastructure. Bolivia must thus find additional resources to increase the level and improve the quality of basic health services and primary education, thus ensuring a healthier and more literate work force.

Continued commitment to the present economic model should over time encourage a sufficient rise in domestic savings to finance the bulk of required investment levels. This, together with increased export revenues, should allow a sharp fall in Bolivia's dependence on foreign capital; the current account deficit is projected to decline, from about 9 percent of GDP in 1989. Less borrowing should also facilitate a decline in debt and debt service payments relative to exports and output. Assuming appropriate policies, by the end of the 1990s Bolivia should be in a position to further increase growth rates without excessive dependence on external capital inflows.

BOLIVIA

Mid-1988 Population (mils.)	7
1988 Per Capita GNP in US$:	570

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	4.4	3.8	-1.5	2.8	2.8
Net Indirect Taxes	6.4	10.3	2.7	1.3	1.9	1.9	..	..	..	..	..
Agriculture	22.9	19.9	18.4	23.9	23.7	24.0	3.5	3.1	2.1	-1.1	2.6
Industry	31.1	38.4	38.4	27.2	27.1	27.0	5.3	0.7	-5.7	12.0	5.7
(of which Manufacturing)	14.8	12.8	18.3	16.7	16.6	16.7	4.2	7.1	-5.6	8.0	3.0
Services	45.9	41.7	43.2	48.9	49.2	49.0	3.8	7.0	-0.2	-0.5	1.0
Resource Balance	-5.5	-0.4	5.5	-5.9	-4.1	-3.6	..	..	..	..	..
Exports of GNFS	21.2	27.6	25.6	22.0	15.6	16.6	4.3	-0.1	-1.2	11.6	7.9
Imports of GNFS	26.6	28.0	20.2	27.9	19.7	20.2	4.0	0.0	-0.9	-12.3	7.6
Total Expenditures	105.5	100.4	94.6	105.9	104.1	103.6	4.3	3.6	-1.5	-3.0	2.7
Total Consumption	86.1	77.3	79.9	99.6	93.6	..	3.9	4.1	-1.1	-2.9	1.9
Private Consumption	77.5	67.5	67.0	85.4	73.1	..	3.5	3.9	-1.4	-3.0	1.3
General Government	8.6	9.7	12.9	14.1	20.5	20.9	8.4	5.8	1.0	-1.7	5.0
Gross Domestic Investment	22.5	29.1	14.7	6.4	10.5	11.9	6.9	-0.5	-6.6	-6.1	15.9
Fixed Investment	16.8	22.0	14.2	5.9	10.6	11.2	7.3	3.9	-6.0	5.7	7.9
Changes in Stocks	5.6	7.1	0.4	0.4	-0.1	0.7	..	..	..	..	..
Gross Domestic Saving	17.0	28.7	20.1	0.4	6.4	8.2	18.2	-2.4	-36.2	91.5	158.3
Net Factor Income	-0.2	-1.9	-5.9	-7.9	-6.1	-5.6	..	..	..	..	..
Net Current Transfers	0.2	0.4	0.3	0.4	0.3	0.5	..	..	..	..	..
Gross National Saving	17.0	27.2	14.5	-7.0	0.6	..	16.8	-13.2	..	..	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	5,020	7,336	9,312	8,311	8,541	8,776	4.4	3.8	-1.5	2.8	2.8
Capacity to Import	1,466	2,583	2,872	1,830	1,611	1,799	6.1	-0.6	-7.7	-12.0	11.7
Terms of Trade Adjustment	193	463	839	0	-432	-406	..	..	..	..	..
Gross Domestic Income	5,213	7,799	10,151	8,311	8,109	8,370	4.9	3.4	-3.1	-2.4	3.2
Gross National Product	5,011	7,180	8,640	7,655	7,975	9,304	4.1	3.0	-1.5	4.2	16.7
Gross National Income	5,204	7,643	9,479	7,655	7,543	8,898	4.7	2.7	-3.2	-1.5	18.0

			(1987 = 100)				Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	0.0	23.2	87.3	100.0	116.0	..	6.8	16.2	486.8	16.0	..
Wholesale Prices (IFS 63)	0.0	33.3	90.9	100.0	119.5	..	..	23.0	527.3	19.5	..
Implicit GDP Deflator	0.0	25.6	85.8	100.0	118.7	137.2	7.5	16.9	482.6	18.7	15.6
Implicit Expenditures Defl.	0.0	24.5	84.7	100.0	123.7	142.4	7.1	17.4	492.1	23.7	15.2

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.4	2.6	2.7
Labor Force	..	..	..
Gross Natl. Income p.c.	2.2	0.1	-5.8
Private Consumption p.c.	1.0	1.2	-4.0
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.9	0.0	0.6
Marginal Savings Rates:			
Gross National Saving	52.4	-29.4	76.4
Gross Domestic Saving	54.2	-6.1	77.5
ICOR (period averages):	..	3.6	-7.4

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	54.2	50.3	46.4	..
Industry	20.0	19.9	19.7	..
Services	25.9	29.8	33.9	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.MET.SN	226.8	162.0	168.6	100.0	108.5	120.4	378	187	104	69	77	103
X.FUEL	..	..	..	..	..	..	221	374	329	249	215	203
X.MET.AG	118.9	35.1	106.8	100.0	151.6	216.2	118	10	27	33	45	55
X.FOOD.X	25.9	34.7	90.0	100.0	85.7	217.6	6	5	17	19	20	49
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	106.0	45.9	74.0	100.0	111.1	144.4	219	52	110	149	185	252
Total Exports FOB	129.9	89.3	110.4	100.0	113.3	137.0	942	628	588	519	543	661
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	..	..	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	120.7	144.3	115.3	100.0	86.2	92.8	172	133	134	126	128	142
Other Intermed. Goods	97.4	112.6	80.6	100.0	62.4	67.2	255	278	235	321	217	242
Capital goods	98.8	107.5	101.1	100.0	82.3	90.6	247	253	282	306	273	311
Total Imports CIF	101.7	119.7	97.4	100.0	83.2	90.0	678	691	674	767	700	783

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	139.9	135.7	102.6	100.0	92.3	93.0
Merch. Imports Price Index	86.9	75.3	90.2	100.0	109.6	113.5
Merch. Terms of Trade	160.9	180.2	113.8	100.0	84.2	82.0

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,030	720	667	650	671	806
Merchandise (FOB)	942	623	545	519	543	661
Non-Factor Services	88	97	121	132	128	145
Imports of Goods & NFS	831	706	840	913	842	937
Merchandise (FOB)	574	463	596	646	591	783
Non-Factor Services	257	244	244	266	251	151
Resource Balance	199	13	-174	-262	-171	-131
Net Factor Income	-265	-375	-311	-282	-268	-381
(interest per DRS)	173	157	99	77	94	126
Net Current Transfers	13	20	19	18	13	22
(workers' remittances)	0	0	1	1	1	..
Curr. A/C Bal. before Off. Transf.	-53	-342	-466	-526	-427	-381
Net Official Transfers	47	60	82	103	172	126
Curr. A/C Bal. after Off. Transf.	-6	-282	-384	-423	-255	-255
Long-Term Capital Inflow	277	-230	-54	23	266	439
Direct Investment	47	10	10	36	-12	35
Net LT Loans (DRS data)	312	-37	225	186	196	139
Other LT Inflow (Net)	-81	-202	-289	-199	82	265
Total Other Items (net)	-423	535	603	385	-40	-231
Net Short Term Capital	-11	345	467	211	-86	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-412	190	136	175	47	-177
Changes in Net Reserves	152	-23	-165	14	29	47
Net Credit from the IMF	61	-12	115	-1	22	-6
Other Reserves Changes	92	-11	-281	15	7	53
As Share of GDP:						
Resource Balance	6.5	0.5	-4.8	-6.5	-4.0	-3.7
Interest Payments	5.6	5.5	2.7	1.9	2.2	3.5
Current Account Balance	-1.7	-12.1	-12.8	-13.0	-9.9	-8.9
Memorandum Items:						
Reserves excl. Gold (mil. US$)	106	200	164	97	106	205
Reserves incl. Gold (mil. US$)	553	492	513	530	473	563
Official X-Rate (LCUs/US$)	0.00	0.44	1.92	2.05	2.35	2.69
Index Real Eff. X-R Base 1980	100.00	279.26	82.21	79.21	75.09	72.02
GDP (millions of current US$)	3,072	2,838	3,635	4,045	4,314	4,474

Budget	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-85	1986	1987	1988	1989

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	315	-12	225	186	196	139	2,182	3,511	4,070	4,641	4,451	3,824
Official Creditors	154	-2	230	170	228	157	1,096	2,068	2,736	3,512	3,771	3,322
Multilateral	101	1	172	110	224	120	447	724	942	1,122	1,323	1,507
of which IBRD	70	-1	-14	-17	-23	-19	175	207	235	270	228	199
of which IDA	2	1	3	40	110	80	64	94	97	141	249	326
Bilateral	53	-3	58	59	5	37	649	1,343	1,795	2,391	2,448	1,815
Private Creditors	161	-9	-5	16	-32	-18	1,086	1,444	1,334	1,128	681	502
Suppliers	-7	-5	3	-2	-2	-5	153	114	90	93	67	20
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	-3	-26	0	0	0	0	92	555	555	200	200	200
Total LT	312	-37	225	186	196	139	2,274	4,066	4,625	4,841	4,651	4,024
IMF Credit	96	-24	97	-35	21	47	126	82	192	186	197	252
Net Short-Term Capital	-11	345	467	211	-86	..	300	656	762	605	607	596
Total incl. IMF & Net ST	397	284	789	362	131	..	2,700	4,805	5,580	5,631	5,456	4,872

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	7.71	5.09	5.07	5.58	4.90	4.95
2. IDA as % of Total	2.81	2.32	2.11	2.91	5.36	8.11
3. IBRD+IDA as % of Total	10.52	7.41	7.18	8.49	10.26	13.06
Share of LT Debt Service						
1. IBRD as % of Total	4.05	8.23	18.56	26.23	18.81	9.73
2. IDA as % of Total	0.25	0.54	0.84	1.56	1.28	1.00
3. IBRD+IDA as % of Total	4.30	8.77	19.40	27.79	20.09	10.73
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	217.41	551.23	675.48	725.73	674.31	517.15
2. IMF Credit/Exports	12.08	11.14	28.09	27.84	28.53	32.36
3. Short-Term Debt/Exports	28.69	88.94	111.33	90.67	88.05	76.61
4. LT+IMF+ST DOD/Exports	258.18	651.31	814.90	844.24	790.90	626.13
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	74.00	143.28	127.22	119.68	107.83	89.93
2. IMF Credit/GDP	4.11	2.90	5.29	4.59	4.56	5.63
3. Short-Term Debt/GDP	9.76	23.12	20.97	14.95	14.08	13.32
4. LT+IMF+ST DOD/GDP	87.87	169.29	153.48	139.22	126.47	108.87
Debt Service /Exports						
1. Public & Guaranteed LT	27.74	33.67	22.94	22.17	32.76	42.45
2. Private Non-guaranteed LT	2.72	11.29	6.57	0.00	0.00	2.57
3. Total Long-Term Debt Service	30.46	44.96	29.52	22.17	32.76	45.02
4. IMF Repurchases+Serv. Chgs.	0.24	3.92	6.21	6.49	9.71	3.06
5. Interest only on ST Debt	4.26	0.68	0.91	2.32	2.35	2.56
6. Total (LT+IMF+ST Int.)	34.95	49.56	36.63	51.68	44.82	50.64

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Botswana

Botswana is a landlocked country in southern Africa, bordered by the Republic of South Africa, Namibia, Zambia, and Zimbabwe. With an area of 570,000 square kilometer and an estimated population in 1988 of 1.2 million, it is for the most part sparsely populated. Over 80 percent of the population is concentrated in the relatively fertile eastern third of the country, as two-thirds of the country is covered by the Kalahari Desert. For a large majority of the population, livestock-holding, supplemented by subsistence agriculture, has been the primary source of income; but with frequent droughts and limited irrigation potential, agricultural growth has been limited.

Recent Economic Developments

Botswana's economy has grown at an annual rate of 13 percent since independence in 1966. This rate, one of the highest the world, reflects both the extreme poverty of Botswana at independence and the transformation of the economy through the development of diamond mining as well as mining for copper-nickel and coal. With the opening of a high-yielding mine at Jwaneng in 1982, the country became the world's largest diamond exporter in value terms. Spurred in large part by the rapid growth (30 percent per annum on average) of the mining sector between FY82[1] and FY87, real GDP grew at an annual rate of 16 percent during the same period. In 1987, GNP per capita stood at US$1,030 with mining accounting for just under 50 percent of domestic output.

Besides mining, the trade and hotel sector (which includes the marketing of diamonds) and the government sector (which receives a substantial portion of mineral revenues) also grew rapidly and accounted between them for about two-thirds of the growth in non-mining GDP (8 percent per annum on average). Agriculture, however, was hit by a drought for seven years. Reductions in the cattle herd by almost 30 percent and declines in crop production caused agricultural growth to fall by more than 7 percent from FY82 to FY87, leaving it to amount to only 3 percent of GDP. Manufacturing, with beef processing as the most important subsector, was also affected by the drought: it grew only by 1 percent per annum during the period. With strong support of the donor community, the government organized an outstanding drought-relief program, eliminating serious infant malnutrition, and preventing any increase in moderate malnutrition.

Preliminary estimates suggest that GDP growth in 1987-89 was dominated even more than usual by developments in the mining sector. In 1987, Botswana sold a large stockpile of accumulated diamonds. As a consequence, GDP grew that year by 10.6 percent with the mining sector growing by 13.3 percent and the non-mining GDP by 8.5 percent. In 1988, GDP's growth was lower — 8.1 percent — as earnings of the mining sector returned to a normal level following the sharp peak. A better indicator of the underlying economy's growth is non-mining GDP, which rose by 7.7 percent in 1988. In 1989 GDP growth was estimated at 8.7 percent.

Botswana's remarkable overall economic growth has been reflected in the fiscal accounts, which in recent years have shown substantial surpluses. Through increased diamond royalty receipts, profits and income taxes on the diamond corporation, government revenues benefitted enormously from the diamond trade, rising from 33 percent of GDP in FY84 to an annual average of about 58 percent in the three-year period ending in FY89. Diamond export receipts in pula terms, and hence government revenues, were enhanced as well by the depreciation, beginning in 1985, of the Botswana pula, which has strong links to the weak South African Rand through a basket of currencies.

Faced with a rapid increase in budgetary revenues, the government followed a prudent expenditure policy. While recurrent expenditures rose in real terms at the same rate as GDP, budgetary capital expen-

1. Fiscal year ends June 30 of specified year.

ditures increased only slightly during the 1983-88 period. As a consequence, the overall budgetary surplus rose consistently from 7.9 percent of GDP in 1983/84 to 16 percent on average during the three-year period ending in 1988/89. Underlying this achievement was a determined policy to sterilize the largest part of the mineral revenues through increased government deposits at the Bank of Botswana. Such a policy reflected the concern of the government to control and plan the use of external resources made available by the mining sector. In FY90, however, the budgetary surplus fell sharply to less than 6 percent of GDP as expenditures rose by about 24 percent.

A similar evolution was recorded in the balance of payments. With the rapid growth of diamond exports since 1982, and prudent management of aggregate demand, the current surplus grew consistently from 0.2 percent of GDP in 1983 to 34.8 percent in 1987. After declining to 8.7 percent of GDP in 1988, the current account surplus is estimated to have risen to 14.2 percent of GDP in 1989. This was accompanied by a rise in reserves from 8 months of imports of goods and services at the end of 1983 to 31 months at the end of 1989.

Development Challenges

Botswana's significant achievements of economic development have to a large extent resulted from prudent and effective management of the economy by a democratic and responsible government. In recent years, however, macroeconomic management has encountered new and difficult challenges. Although the government sterilized about two-thirds of the revenues from the mining sector, the resource inflows accruing to private and parastatal firms and the growth in government expenditure have resulted in substantially increased deposits in the banking system, which the economy has not been able to absorb. As a result, excess liquidity, as measured by the sum of discretionary holdings of call deposits at the Bank of Botswana by the commercial banks and other private institutions, has increased dramatically since 1982 and represented about one quarter of GDP by 1987.

Symptomatic of the country's inability to absorb the large resource gains obtained through trade is the evolution of the investment-savings balance. Gross national savings rose steadily from 11.7 percent of GDP in 1983 to 25.1 percent in 1986 reflecting the increased government savings, while gross investment fell from 29.4 percent of GDP to 22.6 percent during the 1983-88 period. This evolution mainly reflected limits on the country's absorptive capacity and constraints on the rate at which investment can occur profitably in sectors other than mining.

Economic growth has emanated from highly capital intensive mining companies with few direct linkages with the rest of the economy. Despite substantial investments in the non-mining sector, the country continues to have a narrow non-mining productive base. From an already low level (8.8 percent of GDP), industry has achieved an 8.7 percent per annum rate of growth from 1983 to 1988, but still represents only 7.5 percent of domestic output. Overall, the vast majority of the population has remained rural and dependent on agriculture. However, agriculture has been in decline, not just in relation to GDP—its share fell from 7.4 percent of GDP in 1983 to only 2.9 percent in 1988—but more recently in absolute terms, as the country emerged from the seven-year drought, during which production fell to less than 10 percent of total requirements. Further problems are evident in the livestock sector. The land in Botswana is a major natural resource, providing grazing for a national herd that reached 3 million cattle and countless small livestock before the onset of the drought. But an inability to control overstocking and overgrazing of cattle, during both drought and non-drought years, has resulted in degradation of the rangeland.

The overall consequence of the limited diversification achieved in industry and agricultural stagnation has been increased unemployment in urban areas. Although total formal sector employment has grown by an average of 8 percent during the 1980s—a substantial rate by international standards—the annual increase still amounts to only 7,000-8,000 annually as compared with almost 20,000 entrants into the labor market each year. This has resulted in an unemployment rate of about 25 percent in urban areas, compounded by a population growth rate of 3.6 percent that prevailed over the past decade.

Economic Development Strategy

These recent developments have contributed to the realization that government must formulate and implement more effective policy mechanisms to diversify the industrial sector, improve management of Botswana's land resource and livestock, and ease capacity constraints as regards skills and infrastructure. The government's strategy for achieving these objectives, laid out in the Sixth National Development Plan, is based on the expectation that, with the diamond sector now producing at capacity and no further continuous sharp increases in diamond prices being foreseen, budgetary revenues would level off in the near future, which in turn would cause a slow-down in the rate of growth of budgetary expenditures. The non-mining private sector would need to become an important engine for growth, based on greater diversification and increased exports.

The government has given priority to providing incentives to the private sector and ensuring that a sustainable basis for long-term growth be maintained in the rural sector. The government's financial assistance policy includes the provision of tax holidays, favorable interest rates, seed-capital for investors, and payroll and training grants, while foreign investment has been generally encouraged. A key element in promoting economic diversification has been the government's exchange rate policy. Botswana depreciated its real effective exchange rate by about 15 percent from 1983 to 1988, to ensure that non-diamond exports remain competitive.

The agricultural sector, particularly arable farming, is looked upon as a source of future employment, but poor rainfall and limited surface water resources place limits on its potential. Ecological conditions render many parts of the country more favorable to livestock and wildlife than crop production. The Tribal Grazing Lands Policy (TGLP) was introduced in 1975 as a step to control overstocking and range degradation while increasing incomes from cattle-raising by improving land quality, enhancing range management and boosting operational efficiency. TGLP has yet to prove successful in ensuring sustainable use of the national grazing lands. The Arable Lands Development Program (ALDEP) provides incentives for improvements and greater use of agricultural inputs and infrastructure. Though introduced in 1979, this program's full effect is yet to be felt because of the overwhelming impact of the drought. A complementary program, the Accelerated Rainfed Arable Program (ARAP), was instituted two years ago and provides direct subsidies for small and medium-term farmers for plowing, row planting, weeding and applying fertilizer. The drought has also kept this program from raising agricultural production measurably. The impact of the drought prompted the government to accelerate its incipient environmental program, which has now been expanded into the preparation of a comprehensive National Conservation Strategy.

The impact of the drought prompted the Government to accelerate its incipient environmental program, which has now been expanded into the preparation of a comprehensive National Conservation Strategy. Meanwhile, a new system of land management is progressively being introduced in all the country's nine districts, based on a consultative process involving local communities reinforced with Government technical staff. Plans for a number of Wildlife Management Areas have been drawn up in consultation with local communities. Offtake from the cattle herd will be stimulated by ongoing improvements to abattoir capacity and marketing infrastructure, as well as changes in the price structure.

The Government must still achieve progress in two crucial areas: (i) ways must be found for sustaining community grazing schemes among holders of small herds; and (ii) provision of ranch credit must be linked to genuine improvement in herd and range management.

In *population*, the Government's programs have been remarkably successful in promoting contraceptive use, which has doubled in the past four years to 32 percent of eligible women. There has been a corresponding drop in the fertility rate—from 6.5 to 5.0. The main challenge facing the program today is how to accelerate contraceptive use to the point of significantly slowing down the population growth rate in the face of decreasing mortality. This would involve: (a) expanding the family planning program beyond the health system to reach a much wider audience (e.g. males and adolescents, besides adult women); (b) creating effective institutional mechanisms to coordinate the expanded program: and (c) building a national consensus on population and family planning, culminating in a national population policy.

In *health-care delivery*, the Government completed a successful reorganization of the Ministry of Health, and has appreciably strengthened programs for maternal and child health-care, tuberculosis, and sexually-transmitted disease. The Government made a prompt response to the spread of AIDS.

The Government has given special emphasis to the planned development of two relatively underdeveloped regions with considerable potential. In the far north, on the Zimbabwe border, the Pandamatenga region is noted for its rich, black-cotton soils and above-average rainfall.

The Government has adopted a master-plan approach to development of the area; this will aim for a balance between large-scale mechanized production of foodgrains, and smallholder settlement, which began spontaneously. The strategy gives priority to addressing the problem of drainage of the rich soils. High yields in Pandamatenga contributed to the record crop production in Botswana in the 1988/89 season.

In another region, along the Limpopo Valley in the east, the Government has for many years promoted commercial agriculture, as well as providing the infrastructure for the copper-nickel mine of Bamangwato Concessions Ltd. at Selebi-Phikwe. Although the mining operation is highly efficient, the ore reserves are expected to diminish early next century, thus threatening the livelihood of the mining town and its environs. The Government is carrying out a dynamic Government program for economic diversification of the region, which has already attracted investors from a number of countries. The program is linked to an ongoing investigation into the potential for small-scale irrigation in the Limpopo basin.

With the growth of diamond revenues escalating to unprecedented proportions in the second half of the present decade, the Government has placed the greatest emphasis on two concerns regarding the country's financial system:

- the need to maintain macroeconomic stability, safeguard adequate reserves, and avoid wasteful spending in excess of absorptive capacity; and

- the need to make the financial sector more effective in providing services for promoting growth, employment and better income opportunities.

On the initiative of the Government, a closely-coordinated joint team of specialists from the Ministry of Finance and Development Planning, the Bank of Botswana and the World Bank carried out a comprehensive study of the financial sector. Their report recommended policies not only to support economic diversification, but to lay a secure financial foundation for the time when economic resources are scarcer. It suggested ways of deepening the financial system and making it more competitive; improving methods of monetary control; rationalizing the activities of non-bank financial and private financial institutions; and stimulating a competitive entrepreneurial attitude.

The report was reviewed by the economic council of the Cabinet, chaired by the President of Botswana, and published in August 1989. Several key recommendations have already been implemented; others are being worked on. In the aftermath of the study, the Government has appointed a national commission to look into such issues as prices, incomes, social welfare and equitable development.

BOTSWANA

Mid-1988 Population (mils.)	1
1988 Per Capita GNP in US$:	1,010

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rates(% per annum) (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	..	14.7	10.6	11.5	8.1	4.3
Net Indirect Taxes	6.1	8.0	14.4	..	..	..	..	..	..	..	..
Agriculture	33.8	33.0	11.7	3.4	2.9	..	12.4	0.6	-5.9	3.6	3.7
Industry	19.2	27.6	41.1	52.5	54.8	..	30.3	15.0	15.1	9.3	5.3
(of which Manufacturing)	11.6	5.9	4.1	5.7	5.0	..	6.3	12.7	5.0	4.7	8.0
Services	47.0	39.4	47.2	44.2	42.3	..	9.5	10.9	10.3	6.9	3.0
Resource Balance	-18.9	-21.9	-12.5	..	..	..	..	..	..	..	..
Exports of GNFS	31.7	36.7	50.4	..	..	..	..	..	..	..	..
Imports of GNFS	50.6	58.6	62.9	..	..	..	..	..	..	..	..
Total Expenditures	118.9	121.9	112.5	..	..	..	..	..	..	..	..
Total Consumption	112.8	72.0	70.3	..	..	..	..	..	..	..	..
Private Consumption	88.7	59.7	50.5	..	..	..	..	..	..	..	..
General Government	24.1	12.4	19.8	..	..	..	..	..	..	..	..
Gross Domestic Investment	6.1	49.9	41.0	..	..	..	..	..	..	..	..
Fixed Investment	22.0	42.7	35.1	..	..	..	..	..	..	..	..
Changes in Stocks	-15.9	7.2	5.9	..	..	..	..	..	..	..	..
Gross Domestic Saving	-12.8	28.0	28.5	..	..	..	..	..	..	..	..
Net Factor Income	-3.4	-14.0	-7.7	-11.9	-32.7	..	..	..	..	..	..
Net Current Transfers	0.0	0.0	-0.2	0.4	0.8	..	..	..	..	..	..
Gross National Saving	-16.2	13.9	20.7	..	..	..	..	..	..	..	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	194	594	1,259	2,605	2,815	2,935	14.7	10.6	11.5	8.1	4.3
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	169	268	930	2,296	530	556	5.1	15.0	2.6	-76.9	4.8
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	49.3	82.8	91.1	100.0	108.4	120.9	..	11.7	9.9	8.4	11.6
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	56.4	76.2	94.9	100.0	116.1	..	4.4	11.5	10.0	16.1	..
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.1	3.7	3.3
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	35.2	27.3	..
Gross Domestic Saving	47.6	29.1	..
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	88.7	80.8	70.3	..
Industry	3.6	7.0	12.6	..
Services	7.7	12.2	17.1	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	*Volume Index* 1980	1985	1986	1987	1988	1989	*Value at Current Prices (millions US$)* 1980	1985	1986	1987	1988	1989
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	503	744	865	1,587	1,418	2,006
Total Exports FOB	..	..	..	..	..	..	503	744	865	1,587	1,418	2,006
F. Merchandise Imports												
Food	..	..	..	..	..	..	109	102	119	156	..	..
Fuel and energy	..	..	..	..	..	..	90	67	60	69	..	..
Other Consumer Goods	..	..	..	..	..	..	146	115	138	191	..	..
Other Intermed. Goods	..	..	..	..	..	..	233	198	279	369	..	..
Capital goods	..	..	..	..	..	..	113	99	117	152	..	..
Total Imports CIF	..	..	..	..	..	..	690	580	713	937	1,031	1,227

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	*US$ millions (at current prices)* 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	645	804	950	1,741	1,631	1,788
Merchandise (FOB)	545	728	850	1,592	1,478	1,641
Non-Factor Services	101	76	100	150	153	148
Imports of Goods & NFS	780	613	745	991	1,101	1,423
Merchandise (FOB)	603	494	607	804	883	1,083
Non-Factor Services	177	119	138	187	218	340
Resource Balance	-134	191	205	750	531	365
Net Factor Income	-72	-149	-145	-231	-289	-310
(interest per DRS)	7	20	27	31	34	36
Net Current Transfers	-1	-3	-3	7	14	184
(workers' remittances)	..	..	..	..	..	44
Curr. A/C Bal. before Off. Transf.	-207	39	57	526	255	238
Net Official Transfers	132	93	114	162	182	0
Curr. A/C Bal. after Off. Transf.	-75	132	171	688	437	239
Long-Term Capital Inflow	136	105	99	-84	40	237
Direct Investment	109	52	70	114	40	158
Net LT Loans (DRS data)	18	42	11	58	11	85
Other LT Inflow (Net)	8	10	18	-255	-11	-6
Total Other Items (net)	30	17	31	-42	-94	..
Net Short Term Capital	6	20	11	-1	-62	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	24	-3	20	-42	-32	3
Changes in Net Reserves	-90	-254	-302	-562	-382	..
Net Credit from the IMF	..	..	..	..	..	0
Other Reserves Changes	-90	-254	-302	-562	-382	..
As Share of GDP:						
Resource Balance	-15.0	18.5	17.5	52.4	27.4	..
Interest Payments	0.8	2.0	2.3	2.2	1.8	..
Current Account Balance	-23.2	3.8	4.9	36.8	13.2	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	344	783	1,198	2,057	2,258	2,841
Reserves incl. Gold (mil. US$)	344	783	1,198	2,057	2,258	2,841
Official X-Rate (LCUs/US$)	0.78	1.90	1.88	1.68	1.83	2.01
Index Real Eff. X-R Base 1980	100.00	89.37	87.92	87.17	85.29	85.68
GDP (millions of current US$)	893	1,032	1,169	1,431	1,936	..

Budget	Share of GDP (%)						Growth Rates				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980-85*	*1986*	*1987*	*1988*	*1989*
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J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)*						*Debt Outstanding & Disbursed (US$ millions)*					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Public & Publicly Guar. LT	18	42	11	58	11	85	152	341	387	508	494	512
Official Creditors	18	54	8	55	15	89	147	320	363	475	466	483
Multilateral	10	45	9	32	7	69	84	216	258	339	324	336
of which IBRD	4	14	-1	-2	-1	-5	50	122	148	180	163	155
of which IDA	0	0	0	0	0	0	16	15	15	14	14	14
Bilateral	9	9	-1	23	7	20	62	104	104	136	142	147
Private Creditors	0	-12	3	3	-4	-4	5	22	25	33	28	29
Suppliers	0	0	0	0	0	0	2	2	2	2	2	2
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	18	42	11	58	11	85	152	341	387	508	494	512
IMF Credit	0	0	0	0	0	0	0	0	0	0	0	0
Net Short-Term Capital	*6*	*20*	*11*	*-1*	*-62*	..	*4*	*2*	*3*	*3*	*5*	*3*
Total incl. IMF & Net ST	24	63	22	57	-51	..	156	343	390	511	499	515

Bank and IDA Ratios	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Share of Total Long-Term DOD						
1. IBRD as % of Total	32.98	35.77	38.26	35.55	33.01	30.35
2. IDA as % of Total	10.29	4.37	3.77	2.84	2.88	2.71
3. IBRD+IDA as % of Total	43.27	40.14	42.02	38.38	35.88	33.06
Share of LT Debt Service						
1. IBRD as % of Total	77.17	29.16	43.58	39.51	39.30	37.33
2. IDA as % of Total	1.57	0.65	0.66	0.43	0.41	0.67
3. IBRD+IDA as % of Total	78.74	29.81	44.25	39.94	39.70	38.00
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	20.28	38.39	36.34	26.53	27.07	25.13
2. IMF Credit/Exports	0.00	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/Exports	0.54	0.22	0.28	0.17	0.29	0.15
4. LT+IMF+ST DOD/Exports	20.82	38.62	36.62	26.70	27.36	25.28
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	16.98	33.06	33.14	35.47	25.50	..
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	0.00	..
3. Short-Term Debt/GDP	0.45	0.19	0.26	0.22	0.27	..
4. LT+IMF+ST DOD/GDP	17.43	33.26	33.40	35.70	25.78	..
Debt Service /Exports						
1. Public & Guaranteed LT	1.70	5.21	4.24	3.61	4.05	3.68
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	1.70	5.21	4.24	3.61	4.05	3.68
4. IMF Repurchases+Serv. Chgs.						
5. Interest only on ST Debt	0.20	0.03	0.02	0.01	0.01	0.01
6. Total (LT+IMF+ST Int.)	1.90	5.58	4.26	3.62	4.06	3.79

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Burkina Faso

Burkina is a resource-poor landlocked country, geographically positioned 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 9 million inhabitants (nearly 90 percent rural), depends mainly on agriculture and stock raising. Population growth around 3 percent per annum is creating severe pressure on arable land. Per capita income was US$300 in 1988 and social indicators, such as primary school enrollment, access to health services, and life expectancy, are among the lowest in the world.

Characteristics of the Economy

Burkina's economic performance faces several serious constraints that threaten long-term economic development: high population growth and related environmental and socio-economic problems; its dependence on rainfed agriculture and hence vulnerability to drought; an inadequate and fragmented economic infrastructure; and a highly regulated and distortionary economic policies discouraging private investment and exports, the legacy of almost a decade of Marxist/dirigist policies.

Although most of the labor force is occupied in the primary sector, the latter's share in GDP has decreased from nearly 40 percent in the 1970s to roughly 30 percent in the late 1980s. The service sector has expanded and is now the most significant element in the Burkinabè economy, contributing over 40 percent of GDP. In the secondary sector, the contribution of mining to GDP is relatively small, but increasing rapidly thanks to 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 future potential. Manufacturing accounts for only about 14 percent of GDP. Informal activities permeate Burkina's economy in all sectors. It is estimated that they contribute roughly two thirds of value added in commerce, transportation, and communications, and 40 percent in the industrial sector.

Cumbersome regulations, a restrictive trade regime, price controls, and a highly distorted internal incentive structure discourage investment and trade, and make an efficient allocation of resources impossible. These factors have 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 exact size of which is only inadequately estimated, economic growth would no doubt have been much slower in Burkina.

Due to the relatively small size of Sahelian countries, regional market development and economic integration are of great importance for Burkina's economy. At present, roughly one fourth of Burkina's external trade is intra-regional, the highest proportion among Sahelian countries. The potential for increased trade flows within a larger West African market is good and could be significant for Burkina's economic growth. Burkina is a member of the Economic Community of West African States (ECOWAS) and the francophone Communauté Economique d'Afrique de l'Ouest (CEAO).

Burkina's present political conditions may prove to have a very positive effect on development if the pragmatic, less ideological approach to economic management continues. Burkina has undergone significant political changes in the recent past. Since October 1987, a new government has followed a process of "rectification" of the previous regime's revolutionary socialist ideas. The move toward greater political openness and democratization of power is coupled with a less coercive, more pragmatic and liberal approach to economic management. The present government has adopted a more open attitude to the international community, and has begun to liberalize the highly regulatory economic policies put in place by its predecessor. The government has indicated a desire to put in place a structural adjustment program.

Recent Economic Performance

Compared with other countries in the region, economic growth in Burkina has been impressive in the recent past, averaging about four percent per annum between 1982 and 1989. During this period, economic expansion was mainly driven by two sectors: agriculture and the public sector, experiencing average growth rates of 4.7 percent and 6.8 percent a year, respectively. The performance of other sectors, however, has been somewhat disappointing. Manufacturing nearly stagnated during the same period under the burden of excessive regulations, high labor costs, and rigid price controls. Mining grew rapidly but this had little impact on aggregate growth because the sector is still relatively small. In 1989, however, there was a sharp decline in gold production and exports due to a cave-in at the main commercial mine. The performance of commerce, transportation, and other services was mediocre with average annual growth of only 2 percent.

While Burkina's overall economic performance in the past compared favorably with that of its neighbors, there have recently been disquieting developments in public sector finance and in public resource management. The cumulative overall budget deficits of the central government, which averaged 14 percent of GDP in 1985-89 (excluding grants), produced a mounting debt service burden. Due to administrative inefficiencies, disappointing tax revenue performance linked to the stagnation of the formal sector, and the prioritization of other expenditures, Burkina has fallen into arrears on its domestic and external debt service obligations.

The structure of current public expenditures is also a subject of concern. Due to rehiring of civil servants laid off under the previous administration, the wage bill has been increasing too fast, crowding out investment and operating expenditures. The amounts allocated for maintenance of basic infrastructure are inadequate. The allocation of expenditures for basic health services and primary school education is not sufficient to increase coverage and enrollment rates which are well below the average for similarly poor countries. Increasingly, recurrent expenditures of economic or social importance are being financed by external grants or simply being eliminated. The modern sector is dominated by public enterprises, an increasing number of which are in serious financial difficulty, despite generous fiscal exonerations and protection from competing imports. The government-dominated banking system has also fallen into disarray, with disquietingly low levels of liquidity and high levels of "impaired debt" in the portfolio of some of the major banks.

Burkina's external accounts have developed relatively favorably during the 1980s, thanks to increased cotton and gold export revenues. The current account deficit (excluding official transfers) improved compared with the performance in 1977-82. The capital account has been in surplus in most years during 1982-88. Net capital inflows have sufficed not only to cover the current account deficits during this period, but also to build up gross official reserves to the equivalent of almost 7 months of imports at end 1988. In 1989, however, Burkina's BOP position has weakened due to a deterioration in the trade balance, a larger deficit in the service account, and lower net private transfers reflecting reduced workers' remittances from the coastal countries.

On the whole, Burkina's economic performance in recent years has been satisfactory. The rate of expansion of real GDP exceeded the rate of population growth, and inflation has been moderate. Burkina's external position has been quite healthy. As a member of the Franc Zone, the country faces no foreign exchange constraint. However, scheduled debt service payments and mounting arrears are placing an increasingly heavy burden on public finances. At end 1989, total external arrears were much larger than regular debt service on external obligations. Adjustment in the public sector and a serious debt-restructuring effort are becoming indispensable for a realistic borrowing policy. Burkina's external position is projected to weaken further in the early 1990s due to slow growth in gold exports, a deterioration of the terms of trade, and continuing declines in workers' remittances from the Ivory Coast. Additional external financing will therefore be needed to cover considerably higher current account deficits while maintaining an adequate cushion of reserves.

Current Economic Issues

The deteriorating public finance situation is starting to hamper general economic growth, and structural problems must be addressed if a crisis is to be prevented and economic growth sustained. Failure to take corrective measures at this stage would lead to a situation where more radical measures would be necessary, as in some of the neighboring countries. The main adjustment issues are identified, below.

Improving public sector resource management entails assuring an improved tax revenue performance through broadening of the tax base, consolidating of public sector resources through budgetization of parafiscal revenues, and rationalization of the fiscal system. To free up resources for growth of primary education and of basic health services, improved maintenance of infrastructure, and expansion of essential public services in support of private sector productivity, such as agricultural extension, growth of the public wage bill and of current transfers should be contained. Government participation in commercial and industrial activities will need to be reduced to the size commensurate with government management capacity. Deterioration of performance of a number of large enterprises has already had an adverse effect on the fiscal equilibrium, the banking sector, and economic efficiency. The development of a management information system is underway, designed to strengthen the government's budget and debt management capability, analytic capacity, and decision-making.

Public investment programming has been a continual problem in Burkina. The Public Investment Program for 1990 proposes a number of highly visible, large-scale projects which have not been fully analyzed as to their economic merits, budgetary implications, or the country's capacity to implement them. In addition, the government has given priority to seeking financing for new transport sector investments of limited economic value, to the continuing detriment of maintenance and rehabilitation of existing infrastructure. The definition of an investment program which would rank investment proposals according to clearly defined development criteria and budgetary implications, would rationalize the use of both domestic resources and external aid. The clear priorities would be rehabilitation and optimum utilization of the existing economic and social infrastructure. For new investments, the focus would be on a small number of high-return expansion investments designed to support productive activities, safeguard land management, and develop Burkina's human resources.

Production and investment incentives could give a significant boost to economic growth. The Burkinabè people have long been known among the Sahelians for their entrepreneurial skill and diligence. Indeed, Burkinabè migrants have made a substantial contribution to the economies of neighboring coastal countries. Appropriate policies that supported the entrepreneurial energy of the Burkinabè people could stimulate formal private sector production, trade, and investment, Burkina's economy needs less government intervention and restrictive regulations. Price controls need to be dismantled; labor regulations made more flexible; the fiscal system rationalized and the investment code updated. Policies which depreciate the real effective exchange rate and enhance the competitiveness of Burkinabè production will need to be pursued in light of the relatively high costs of production in Burkina. Recent initiatives indicate the government's willingness to loosen up the tight regulatory framework of the economy.

Population, environment, and human resource development are needed because Burkina's high population growth rate of more than 3 percent per annum contributes to a variety of ecological and economic development problems. Cultivable land, plant cover, and water resources are being overexploited in populous areas, leading to rapid soil degradation, erosion, and further decertification. Emigration to neighboring countries, which has amounted to about 0.3 percent of the population in the past, has lost its role as a safety valve for mounting population pressures, due to 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 primary school enrollment ratio has thus only reached 30 percent and life expectancy is estimated at 47 years, primarily because of very high infant and child mortality rates.

Top priority should be put on slowing population growth which is a precondition for sustained progress in the management of natural resources and in improving the human capital of the population. The government is already committed to increased provision of family planning services but more resources are required for these programs and to better integrate them into the existing health service delivery system. Increased awareness of environmental degradation has lead to the formulation of a program to extend the dissemination of simple technologies which aid soil, water, and biomass conservation. A sustained implementation of policy reforms is, however, required to enhance the land security of rural communities so as to improve the incentives for improved natural resource management. To increase the quality of primary education, the primary enrollment ratio and basic health coverage, both increased budgetary allocations to these areas as well as improved operating efficiency through more adequate provisions for materials and supplies, will be necessary. A portion of the resources needed for primary education can be made available by reducing the currently high expenditures of secondary and university-level stipends.

External Capital Requirements and Financing Plan

Achievement of real GDP growth per capita percent a year from 1990 through 1992 will require a shift away from public sector expansion toward the stimulation of private sector development, as well as action to increase public savings and restructure public expenditure. Strong demand for imports, resulting from maintaining per capita consumption growth at a minimal acceptable level of 1 percent per year, and the modest potential for increasing exports, would allow only modest improvement in the external current account deficit by 1992. However, taking into account expected debt rescheduling and debt cancellation, as well as fast-disbursing funds that will be released in the event of an adjustment program with the IMF and the Bank, Burkina should be able to maintain an adequate cushion of foreign reserves during the period under review.

BURKINA FASO

Mid-1989 Population (mils.)	9
1989 Per Capita GNP in US$:	300

	A. Shares of Gross Domestic Product (from current price data) 1/						B. Growth Rates(% per annum) (from constant price data) 1/				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1984-89*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.3	4.1	7.8	9.5	0.9
Net Indirect Taxes	7.8	7.7	5.9	3.8	3.8	4.1	..	..	11.0	9.2	9.1
Agriculture	48.4	40.2	38.9	30.3	31.6	30.6	..	1.3	7.8	14.3	-2.9
Industry	18.4	24.9	18.8	23.8	23.3	23.3	..	1.5	8.4	7.2	0.3
(of which Manufacturing)	..	..	..	14.1	13.8	13.7	..	..	7.2	6.2	0.2
Services	25.3	27.2	36.4	42.1	41.2	42.0	..	9.5	7.3	7.4	3.5
Resource Balance	-8.0	-21.9	-28.8	-14.7	-14.5	-17.7	..	..	..	..	..
Exports of GNFS	8.5	11.5	16.5	10.1	9.9	8.9	8.7	8.1	0.7	-16.6	-8.8
Imports of GNFS	16.5	33.4	45.3	24.8	24.4	26.5	7.0	6.8	2.1	-22.0	2.9
Total Expenditures	124.0	122.2	120.2	114.7	114.5	117.7	4.5	4.5	7.2	3.9	2.1
Total Consumption	96.2	94.1	103.1	94.3	92.4	96.8	2.4	6.3	5.9	-5.1	7.5
Private Consumption	86.9	79.2	91.2	80.6	79.2	83.6	1.4	6.7	6.5	-5.3	10.3
General Government	9.3	14.9	17.0	13.7	13.2	13.2	10.7	4.1	1.6	-3.7	-10.9
Gross Domestic Investment	11.7	27.8	20.4	20.4	22.1	20.9	13.7	-2.1	13.6	49.0	-15.2
Fixed Investment	..	..	18.0	24.4	20.0	21.7	..	..	14.8	11.0	6.6
Changes in Stocks	..	..	2.4	-4.0	2.1	-0.8	..	..	..	..	..
Gross Domestic Saving	3.8	5.9	-8.2	5.7	7.6	3.2	..	..	..	109.9	-42.0
Net Factor Income	2.5	6.8	-0.3	-0.6	-0.5	-0.6	..	..	..	..	..
Net Current Transfers	..	8.0	8.8	6.8	6.3	5.6	..	..	..	..	..
Gross National Saving	..	20.8	0.3	11.9	13.4	8.2	39.4	-6.0	18.2	53.4	-34.4

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	332	399	529	731	800	808	2.3	4.1	5.3	9.5	0.9
Capacity to Import	29	34	55	74	58	51	2.0	7.1	0.7	-21.3	-12.1
Terms of Trade Adjustment	11	1	-1	0	2	6	..	..	..	..	..
Gross Domestic Income	343	399	529	731	795	799	1.9	4.1	5.2	8.7	0.6
Gross National Product	337	417	528	727	792	796	2.7	3.4	5.2	9.0	0.5
Gross National Income	348	417	527	727	798	805	2.3	3.4	5.3	9.8	0.8

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	72.2	105.7	102.9	100.0	104.4	103.9	1.9	11.6	4.6	4.4	-0.5
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	68.3	98.2	95.9	100.0	98.4	101.8	2.5	11.2	4.4	-1.6	3.5
Implicit Expenditures Defl.	68.7	102.6	99.4	100.0	98.0	101.0	3.2	11.7	4.4	-2.0	3.1

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1984-89*
Population	1.9	2.9	3.3
Labor Force	..	..	..
Gross Natl. Income p.c.	0.3	1.9	4.0
Private Consumption p.c.	-1.7	4.4	1.8
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	2.9	1.7	..
Marginal Savings Rates:			
Gross National Saving	85.4	-12.4	..
Gross Domestic Saving	37.7	-61.4	..
ICOR (period averages):	..	6.8	3.8

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	89.3	87.8	86.7	..
Industry	3.4	3.9	4.3	..
Services	7.4	8.4	9.1	..
Total	100.0	100.0	100.0	100.0

1/ From 1984 on, data on domestic production are based on new Nationa series including value added of the informal sector.

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.OAGRI.COTTON	..	..	..	..	..	..	..	30	37	68	69	76
X.FOOD.MEAT	..	..	..	..	..	..	..	14	15	18	22	24
X.FOOD.X	..	..	..	..	..	..	..	5	2	2	0	
X.MET.AU	..	..	..	..	..	..	..	14	30	53	57	33
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	73	65	89	101	82
Total Exports FOB	..	..	..	..	..	..	..	136	149	230	249	214
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	20	20	20	19
Fuel and energy	..	..	..	..	..	..	..	..	45	40	49	56
Other Consumer Goods	..	..	..	..	..	..	..	..	214	215	208	215
Other Intermed. Goods	..	..	..	..	..	..	..	..	11	13	19	24
Capital goods	..	..	..	..	..	..	..	..	152	173	191	207
Total Imports CIF	..	..	..	..	..	..	..	353	441	461	487	521

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987p	1988e	1989e
Exports of Goods & NFS	210	163	189	265	284	254
Merchandise (FOB)	161	135	149	230	249	214
Non-Factor Services	49	27	40	35	35	39
Imports of Goods & NFS	577	488	598	646	691	721
Merchandise (FOB)	368	353	441	461	487	513
Non-Factor Services	208	135	157	185	204	209
Resource Balance	-367	-325	-409	-381	-407	-468
Net Factor Income	-4	0	-12	-14	-13	-15
(interest per DRS)	6	10	12	14	14	15
Net Current Transfers	112	139	191	166	165	144
(workers' remittances)	150	126	192	166	165	147
Curr. A/C Bal. before Off. Transf.	-259	-187	-230	-229	-254	-338
Net Official Transfers	211	127	206	182	202	216
Curr. A/C Bal. after Off. Transf.	-49	-60	-24	-47	-53	-122
Long-Term Capital Inflow	58	54	80	105	71	85
Direct Investment	0	12	3	6	2	2
Net LT Loans (DRS data) 1/	62	42	77	99	69	-126
Other LT Inflow (Net) 2/	-5	0	0	0	0	210
Total Other Items (net)	2	-1	-2	-22	17	-12
Net Short Term Capital	10	6	-9	-18	0	-2
Capital Flows N.E.I. 3/	0	2	27	22	15	-2
Errors and Omissions	-8	-8	-20	-27	2	-8
Changes in Net Reserves	-11	6	-55	-34	-36	49
Net Credit from the IMF	0	-1	-2	-2	0	-1
Other Reserves Changes	-11	7	-53	-32	-35	49
As Share of GDP:						
Resource Balance	-28.8	-22.7	-20.6	-15.6	-15.4	-18.2
Interest Payments	0.5	0.7	0.6	0.6	0.5	0.6
Current Account Balance	-20.3	-13.0	-11.6	-9.4	-9.6	-13.2
Memorandum Items:						
Reserves excl. Gold (mil. US$)	68	140	233	323	321	265
Reserves incl. Gold (mil. US$)	75	143	238	328	325	270
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	100.00	83.63	82.11	78.68	78.97	76.22
GDP (millions of current US$)	1,275	1,432	1,985	2,434	2,642	2,567

p = preliminary.
e = estimated.
1/ In 1989, includes capitalized debt service to the French Caisse Centrale.
2/ In 1989, includes French debt cancellation under the 'Dakar-Mitterrand' initiative.
3/ Change in arrears (+ = accumulation, - = decrease).

I. Central Government Budget 2/	*Share of GDP (%) 1/* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Revenue	..	13.5	13.8	15.0	13.9	13.9	..	8.9	15.7	0.1	3.9
Grants 3/	..	8.1	8.1	7.0	6.7	16.4	..				
Expenditure & Net lending 4/	..	25.8	29.7	29.1	28.2	28.1	..	23.7	4.0	4.2	4.0
Payments arrears accumulation	..	-0.2	0.5	1.2	0.9	-0.1	..	..	147.8	-17.2	-112.2
Overall deficit (Cash basis)	..	-12.4	-15.5	-12.9	-13.3	-14.3	..	33.4	-11.2	11.0	12.1
Net external financing 5/	..	3.5	6.4	5.6	3.8	-4.0	..	97.4	-6.0	-28.2	-211.6
Net domestic financing	..	0.9	1.0	0.3	2.9	2.0	..	25.8	-71.8	..	-29.2

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J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	58	42	77	99	69	74	284	488	615	792	805	835
Official Creditors	54	51	85	102	71	76	264	449	578	753	772	800
Multilateral	27	35	68	51	42	44	145	298	389	486	502	521
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	12	21	32	21	18	24	77	149	186	221	234	255
Bilateral	28	17	17	51	30	31	119	151	189	267	269	279
Private Creditors	4	-9	-8	-4	-2	-2	20	38	36	40	34	35
Suppliers	0	-1	-1	0	0	0	2	8	8	9	8	8
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	58	42	77	99	69	74	284	488	615	792	805	835
IMF Credit	4	-2	-3	-3	-3	-2	15	10	8	6	3	1
Net Short-Term Capital	0	17	6	18	0	7	35	43	49	67	59	66
Total incl. IMF & Net ST	62	57	80	113	66	79	334	541	672	865	867	901

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	27.19	30.50	30.26	27.91	29.03	30.57
3. IBRD+IDA as % of Total	27.19	30.50	30.26	27.91	29.03	30.57
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	2.98	6.35	8.71	7.02	10.16	4.89
3. IBRD+IDA as % of Total	2.98	6.35	8.71	7.02	10.16	4.89
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	53.15	99.80	95.27	123.67	120.90	124.08
2. IMF Credit/Exports	2.75	2.09	1.27	0.94	0.39	0.09
3. Short-Term Debt/Exports	6.55	8.80	7.60	10.46	8.80	9.76
4. LT+IMF+ST DOD/Exports	62.45	110.69	104.14	135.06	130.08	133.93
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	22.28	34.05	30.96	32.55	30.48	32.53
2. IMF Credit/GDP	1.15	0.71	0.41	0.25	0.10	0.02
3. Short-Term Debt/GDP	2.75	3.00	2.47	2.75	2.22	2.56
4. LT+IMF+ST DOD/GDP	26.18	37.77	33.84	35.54	32.79	35.12
Debt Service /Exports						
1. Public & Guaranteed LT	3.15	5.16	4.81	4.45	5.46	5.47
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	3.15	5.16	4.81	4.45	5.46	5.47
4. IMF Repurchases+Serv. Chgs.	0.02	0.37	0.48	0.52	0.47	0.28
5. Interest only on ST Debt	0.97	0.59	0.50	0.66	0.72	0.70
6. Total (LT+IMF+ST Int.)	4.14	6.12	5.78	5.62	6.65	6.45

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

1/ As percent of formal GDP.
2/ Consolidated Central Government rev.
3/ Grants include project and budgetary assistance. In 1989, includes the counterpart of debt cancellation.
4/ Includes current expenditures, capital expenditures incl. special accounts and foreign-financed projects, and net lending.
5/ In 1989, includes all scheduled amortization payments due to the French Caisse Centrale.

Burundi

Burundi is a small, landlocked country in East-Central Africa. Its GNP per capita, estimated at about US$240 (1988), ranks among the lowest in the continent. With a population of about 5 million, Burundi has the second highest population density in Africa, estimated at 179 persons per square kilometer. Social indicators are similar to those of the poorest African countries. Population growth (3 percent per annum projected for the 1985-2000 period) is high. Despite the demographic pressure on already constrained land, urban migration has been limited: only 6 percent of the total population is urban. The country has limited natural resources other than relatively fertile agricultural land. Identified mineral resources include nickel, phosphate, petroleum, vanadium, and some alluvial gold, but it is not yet clear whether their exploitation is economically viable.

Agriculture is the predominant activity, contributing more than half of GDP, 93 percent of employment and 88 percent of export earnings. The most important export crop in this largely subsistence-dominated sector is coffee, which on the average accounts for about 80 percent of export earnings. Burundi is one of the few African countries that is self-sufficient in food (at least for the most popular staples). However, three years of lower than average foodcrop production may indicate a deteriorating food security situation. The secondary sector is still small, accounting for about 14 percent of GDP and 8 percent of exports in the last five years. The private sector, whose share of total fixed investment of 15 percent is relatively small, plays a major role in agricultural production and transport. The public sector dominates manufacturing, energy and infrastructure, contributing half of the country's formal employment. As a landlocked country, Burundi is vulnerable to transportation conditions in neighboring countries. Although progress has been made in recent years to improve physical infrastructure and to simplify transit formalities, transportation costs to and from the Indian Ocean ports remain very high. Passage through neighboring countries is not reliable, can cause serious domestic shortages and shortfalls in export revenues, reducing the country's ability to compete in export markets.

Burundi's current government is led by President Buyoya who took power in a military coup in September 1987. In August 1988 Burundi experienced an outburst of ethnic violence which shook the country and reopened wounds which had not healed from previous conflicts. This event made many victims, and led to a temporary flood of refugees to neighboring Rwanda. The President reacted by redoubling his efforts to promote national reconciliation and unity and by naming a new Cabinet which reflects this policy. The overwhelming majority of refugees have returned to Burundi, and reconstruction efforts have been completed in the affected areas.

After a period of relatively good performance during the late 1970s, Burundi's economic and financial situation took a turn for the worse in 1981, which was attributable to a sharp deterioration in its terms of trade, expansionary fiscal and monetary policies and adverse climatic conditions. GDP growth, which had averaged 5.1 percent per annum in real terms during 1978-81, declined to less than 1.0 percent during 1982-84. In 1984, the external current account deficit (excluding official transfers) rose to 16 percent of GDP, and the overall fiscal deficit (on a cash basis) rose to 15 percent of GDP. Inflation reached 14 percent, leading to a rapid appreciation of the real effective exchange rate of the Burundi franc. The government responded with administrative controls aimed at containing the external deficit and protecting domestic industry. The ensuing distortions, however, only served to highlight Burundi's major structural constraints: excessive dependence on coffee exports, excessive role of the public sector, and inadequate incentives for sustained growth in agriculture and industry.

In recognition of the serious economic consequences of a failure to correct economic and financial imbalances, the government embarked in 1985 on a comprehensive economic reform program. The economy rebounded following the recovery of agricultural production to pre-drought levels. Despite political upheaval and fluctuating coffee prices, developments in the 1986 through 1988 period were largely positive with GDP growing on average by 3.8 percent a year. Nevertheless the structural transformation of the economy has lagged and the expected supply side response from improved macro policies has proved illusive. In general, the reforms launched under the adjustment program were continued, though not at the pace initially envisaged. The fragility of the present coalition in favor of national unity has also been a factor in the slow response of the private sector.

The economic stabilization gains of 1986 were severely compromised in 1987 when world prices of coffee declined by 46 percent to their lowest level in a decade, and coffee export earnings contracted by US$36 million resulting in a budget deficit of 17 percent of GDP. The situation improved in 1988, although the budget deficit was still 12 percent of GDP. Balance of payments developments largely followed the public finance situation due to Burundi's heavy reliance on coffee for both export earnings and budgetary revenue. The current account deficit (excluding official transfers) soared to about 18 percent of GDP in 1987, but it was significantly lower in 1988 (14.5 percent of GDP).

In 1989, growth was slightly negative (-0.4 percent) in real terms. Agricultural production, which had generally kept pace with population growth declined by 1.7 percent and the industrial sector, following a period of sustained growth since 1979, contracted by about 6 percent. The services sector grew by about 2 percent largely due to increased banking activity and the creation of a number of consulting firms. Poor performance is attributable to: (1) irregular rainfall, which seriously affected both foodcrop and coffee production; (2) poor performance in the parastatal sector (manufacturing production was cut in half); and (3) a fall for the second year in a row in gross domestic investment linked to a decline in external capital inflows. Relatively vigorous demand management policies in 1989 led to a continuing reduction in the fiscal and current account deficits which were 7.2 percent and 14 percent of GDP, respectively. Gross external reserves rose to 5 months of imports, their highest level since 1980.

Government Objectives and Policies

The declining terms of trade have highlighted the vulnerability of the economy due to its dependence on coffee. Historically, low domestic savings and investment rates and the privileged position accorded the coffee sector have impeded economic diversification. Reliance on foreign savings pushed Burundi's external debt to US$818 million, or about 76 percent of GDP, at end-1989. The combination of a serious debt burden, overdependence on coffee, and low savings/investment makes it difficult to achieve the necessary structural adjustment quickly. Long-term economic development is also hindered by rapid population growth, limited availability of arable land, low education and skill levels, the limited size of the domestic market, and the difficult and costly access to external markets.

Laying the basis for sustained economic growth requires, therefore, a broad approach. To address the structural issues, the government's program includes a comprehensive package of both *ongoing measures* to: (i) strengthen macroeconomic management; (ii) create an incentive framework to stimulate exports and improve private sector confidence; (iii) reform public enterprises; (iv) improve public expenditure management; and *new measures* to: (v) increase the efficiency of the financial sector; (vi) liberalize the labor market; and (vii) implement well-targeted measures aimed at alleviating poverty. Development programs that address other long-term constraints and are being supported by major donors include: an active population policy; efforts to strengthen agricultural services; promotion of small and medium enterprises (SME); effective management of natural resources; and improvement of the country's human resources through expanded education and health services.

The government's monetary and fiscal stabilization efforts include the pursuit of a flexible exchange rate policy and of prudent financial and monetary policies. Between July 1986 and December 1989, the exchange rate was devalued by 52 percent in SDR terms, allowing the real effective exchange rate to depreciate to its lowest level since the 1970s. With a view to increasing fiscal revenues, the government has broadened the transactions tax base and increased the rate from 12 to 15 percent. Coverage of the statistical tax on imports has been expanded to all imports, and tax administration and collection is being reinforced. Limits for public expenditure on personnel outlays, goods and services and recurrent subsidies were in effect for 1989. The liberalization of credit and interest rate policies has generally been completed as planned. Annual inflation is currently 8 percent instead of the 5 percent originally projected.

The government's program contains measures such as tariff reform and the introduction of a drawback scheme to improve the competitiveness of traditional and non-traditional exports as well as import substitution. Measures are also in progress or under consideration to improve agricultural productivity through more efficient use of inputs, appropriate pricing policies and improved agricultural services.

Despite a number of implementation delays in the area of public resource management, the government remains committed to strengthening public expenditure programming and restructuring the public enterprise sector. The government is currently preparing four sectoral public expenditure programs for 1990-92 which include recurrent, capital and technical assistance expenditures, financed with either internal or external resources. Expenditure priorities include the strengthening of basic social services and maintaining existing economic and social infrastructure.

Labor market and financial market liberalization is intended to complement other incentives to promote economic growth. Labor legislation has been revised to allow employers greater latitude in hiring and firing decisions although further reforms are required. Similarly, financial sector reforms are being implemented to improve the quality of banking services by promoting competition, to stimulate savings through appropriate remuneration of savings and to expand the private sector's access to credit, while relaxing the inefficient use of selective credit controls.

Medium-Term Prospects and Resource Needs

Economic performance over the next five years will depend on several factors: (i) timely implementation of the adjustment program and, in particular, measures to improve public resource allocation (including parastatal restructuring) and to stimulate private sector development; (ii) the responsiveness of the private sector to new incentives and an improved regulatory framework; (iii) the evolution of world prices for Burundi's exports, in particular coffee; and the availability of external financing on concessional terms. Growth in 1988 and 1989 fell significantly short of projections, and the outlook for 1990 is not promising; however, with a return of more normal climatic conditions, a resumption of the previously higher level of aid disbursements and the introduction of private sector management of the manufacturing sector, annual average real GDP growth for the 1991-93 period could reach 4.0 to 4.5 percent. Real per capita consumption would grow at a minimum of 1.0 percent per annum.

The projections assume modest growth in 1990 and 1991 — in line with the Bank's relatively pessimistic outlook for coffee prices — and higher rates in the 1992-93 period, over which time the market for fully washed arabica is expected to recover progressively. If performance with respect to the implementation of reforms is significantly strengthened, manufactured exports could grow from its small base at a substantial rate. The simplified drawback scheme would have to be applied and the process of rehabilitating industrial parastatals would have to be accelerated. Investment as a share of GDP is expected to be sustained at about its present level; however, dependence on external resources to finance investment will be very high for many years to come. In April 1989, the government organized a Round Table Meeting in Bujumbura which was well-attended and was successful in evoking generous pledges of assistance from donors.

Burundi is eligible for assistance under the Special Program of Action for low-income debt-distressed African countries. Although the average terms of its debt have improved markedly in recent years, Burundi has maintained a debt service ratio of over 30 percent. The ratio is likely to rise in 1990 and 1991 as a result of a sharp decline in export earnings from coffee. Rescheduling under the Paris Club would not provide a significant reduction in debt service payments, since only about one-fifth of its 1989 debt service is due to Paris Club members, and 63 percent of total public debt is owed to multilateral institutions. However, Burundi has been a major beneficiary of the French government's decision to forgive debt on concessional loans to certain low-income countries and other bilateral donors have expressed interest in following suit.

BURUNDI

Mid-1988 Population (mils.)	5
1988 Per Capita GNP in US$:	230

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	8.4	3.8	4.8	3.6	-0.4
Net Indirect Taxes	6.0	6.8	7.5	10.0	12.6	11.8	..	..	..	..	..
Agriculture	..	63.3	57.8	50.9	48.9	46.2	10.6	1.6	3.1	2.3	-1.6
Industry	..	11.6	11.7	13.2	13.1	15.9	27.7	9.6	5.8	3.4	-6.7
(of which Manufacturing)	..	9.3	6.9	8.5	8.4	5.3	10.5	4.6	6.1	2.9	-46.0
Services	..	18.2	23.0	25.9	25.4	26.1	1.5	4.7	6.3	3.6	2.0
Resource Balance	-2.2	-2.3	-13.5	-16.7	-13.3	-13.3	..	..	..	..	..
Exports of GNFS	10.3	11.0	8.8	9.7	12.3	9.9	4.5	0.8	7.6	-1.2	9.0
Imports of GNFS	12.5	13.3	22.3	26.4	25.6	23.2	5.4	9.5	1.0	-13.8	8.8
Total Expenditures	102.2	102.3	113.5	116.7	113.3	113.3	8.0	5.4	3.7	0.1	0.6
Total Consumption	96.5	97.0	99.7	95.5	94.9	97.6	8.6	4.4	2.9	3.4	1.3
Private Consumption	89.5	85.4	86.5	76.7	77.5	79.9	8.0	4.3	2.4	4.4	0.5
General Government	6.9	11.6	13.1	18.7	17.3	17.8	12.3	5.0	5.4	-0.7	4.8
Gross Domestic Investment	5.8	5.3	13.9	21.2	18.5	15.7	-1.4	18.5	8.8	-15.0	-3.2
Fixed Investment	5.5	5.7	13.9	20.8	16.7	15.7	..	..	..	..	..
Changes in Stocks	0.2	-0.4	..	0.5	1.7	0.0	..	..	..	..	..
Gross Domestic Saving	3.6	3.0	0.3	4.5	5.1	2.4	..	..	..	37.1	-46.9
Net Factor Income	-1.1	-2.7	-0.8	-2.5	-2.0	-1.6	..	..	..	..	..
Net Current Transfers	0.0	0.2	0.4	0.6	0.9	..	..	..	..	..	..
Gross National Saving	2.5	0.5	0.0	2.6	4.1	0.8	..	..	..	94.2	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	44,145	80,022	98,559	140,480	145,537	144,942	8.4	3.8	4.8	3.6	-0.4
Capacity to Import	11,233	15,701	12,770	13,595	15,338	14,864	3.9	3.7	3.3	12.8	-3.1
Terms of Trade Adjustment	6,713	8,562	6,410	0	1,904	226	..	..	..	..	..
Gross Domestic Income	50,858	88,584	104,969	140,480	147,441	145,168	7.9	4.1	4.4	5.0	-1.5
Gross National Product	43,597	77,506	97,713	136,916	142,642	142,328	8.5	4.1	4.6	4.2	-0.2
Gross National Income	50,310	86,068	104,123	136,916	144,546	142,554	8.0	4.4	4.3	5.6	-1.4

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	60.1	91.5	93.2	100.0	104.4	..	3.1	15.3	7.1	4.4	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	84.0	108.7	104.4	100.0	105.5	117.7	-0.5	15.3	3.9	5.5	11.5
Implicit Expenditures Defl.	75.4	98.1	94.1	100.0	106.1	117.1	0.1	14.7	4.9	6.1	10.4

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	1.7	2.0	2.9
Labor Force	..	..	..
Gross Natl. Income p.c.	6.2	2.3	1.4
Private Consumption p.c.	6.2	2.2	-0.4
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.6	2.5	0.2
Marginal Savings Rates:			
Gross National Saving	-2.3	-2.1	17.5
Gross Domestic Saving	2.2	-12.6	19.8
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	94.1	93.3	92.7	..
Industry	2.0	2.2	2.4	..
Services	4.0	4.5	4.9	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	*Volume Index* 1980	1985	1986	1987	1988	1989	*Value at Current Prices (millions US$)* 1980	1985	1986	1987	1988	1989
X.BEV.COFFEE	..	..	..	..	..	..	58	95	105	70	102	75
X.BEV.TEA	33.8	96.0	98.3	100.0	95.0	109.9	2	5	5	5	6	8
X.MAN.HIDES	16.9	83.9	100.0	100.0	127.3	138.6	1	1	1	1	2	3
X.OAGRI.COTTON	23.0	6.9	4.4	100.0	18.5	6.6	1			4	1	
Manufactures	14.8	63.2	82.4	100.0	61.2	66.7	1	6	10	13	8	6
Residual	100.7	84.9	93.6	100.0	87.5	95.3	3	5	5	5	4	6
Total Exports FOB	46.3	99.9	87.3	100.0	100.0	108.9	66	112	126	98	123	98
F. Merchandise Imports												
Food	177.9	156.6	145.9	100.0	66.7	70.4	18	17	16	12	12	10
Fuel and energy	52.5	72.4	119.8	100.0	108.7	109.2	25	32	27	29	21	22
Other Consumer Goods	47.1	93.0	98.4	100.0	104.2	104.2	52	36	50	44	35	40
Other Intermed. Goods	56.2	75.2	90.0	100.0	67.7	65.8	40	45	53	48	35	41
Capital goods	52.5	108.5	87.2	100.0	69.5	75.8	33	58	57	73	62	59
Total Imports CIF	79.6	107.0	111.1	100.0	83.0	103.8	167	188	203	206	165	172

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	144.9	113.9	146.1	100.0	125.4	120.1
Merch. Imports Price Index	101.8	85.3	88.7	100.0	96.6	99.5
Merch. Terms of Trade	142.2	133.3	164.7	100.0	129.7	120.8

H. Balance of Payments	*US$ millions (at current prices)* 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	81	127	140	110	136	107
Merchandise (FOB)	66	114	129	98	124	98
Non-Factor Services	15	13	12	12	12	10
Imports of Goods & NFS	206	239	267	289	282	251
Merchandise (FOB)	168	150	165	160	166	161
Non-Factor Services	38	89	103	129	116	89
Resource Balance	-125	-112	-127	-178	-146	-143
Net Factor Income	-7	-18	-21	-28	-22	-17
(interest per DRS)	2	9	12	15	16	17
Net Current Transfers	4	10	8	7	10	11
(workers' remittances)	0	0	0	0	0	0
Curr. A/C Bal. before Off. Transf.	-128	-121	-140	-200	-158	-150
Net Official Transfers	32	78	102	108	87	78
Curr. A/C Bal. after Off. Transf.	-96	-42	-37	-92	-71	-72
Long-Term Capital Inflow	77	59	66	121	83	61
Direct Investment	1	1	2	1	1	1
Net LT Loans (DRS data)	35	58	80	121	80	72
Other LT Inflow (Net)	41	0	-15	-2	2	-12
Total Other Items (net)	21	-6	-9	-39	-20	49
Net Short Term Capital	21	7	19	15	1	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	0	-13	-28	-54	-21	49
Changes in Net Reserves	-2	-11	-19	10	8	-38
Net Credit from the IMF	0	..	10	2	17	11
Other Reserves Changes	-1	-11	-29	9	-9	-48
As Share of GDP:						
Resource Balance	-13.6	-9.6	-10.3	-15.7	-13.3	-13.3
Interest Payments	0.2	0.7	1.0	1.3	1.5	1.6
Current Account Balance	-13.9	-10.3	-11.3	-17.6	-14.5	-14.0
Memorandum Items:						
Reserves excl. Gold (mil. US$)	95	29	69	61	69	100
Reserves incl. Gold (mil. US$)	105	35	76	69	76	107
Official X-Rate (LCUs/US$)	90.00	120.69	114.17	123.56	140.40	158.67
Index Real Eff. X-R Base 1980	100.00	135.28	116.50	100.07	88.01	89.44
GDP (millions of current US$)	920	1,171	1,234	1,137	1,094	1,075

I. Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989
Current Receipts	12.0	12.9	15.6	12.7	15.6	..
Current Expenditures	11.4	11.4	12.5	14.2	15.2	..
Current Budget Balance	0.6	1.5	3.1	-1.5	0.4	..
Capital Receipts	2.0	1.0	1.3	1.2	1.2	..
Capital Expenditures	13.6	12.5	11.3	17.5	14.6	..
Adjustments	1.1	-0.2	-0.3	1.1	0.7	..
Overall Deficit (Cash Basis)	-9.9	-10.1	-7.1	-16.7	-12.4	..
Official Capital Grants	3.7	3.4	3.4	3.9	3.9	..
External Borrowing (net)	3.9	5.1	5.7	11.9	8.7	..
Domestic Non-Bank Financing	1.4	0.5	-0.8	..	..	..
Domestic Bank Financing	0.9	1.0	-1.3	0.9	-0.2	..

I. Budget	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	12.9	20.4	-18.9	34.0	..
Current Expenditures	12.3	9.3	13.6	16.8	..
Current Budget Balance	24.3	102.1	-148.0	-127.5	..
Capital Receipts	4.9	29.8	-8.0	3.8	..
Capital Expenditures	19.5	-10.0	54.5	-8.3	..
Adjustments	-52.1	59.8	-464.5	-31.7	..
Overall Deficit (Cash Basis)	30.0	-30.0	134.6	-18.5	..
Official Capital Grants	13.9	1.2	13.9	9.3	..
External Borrowing (net)	53.0	10.3	108.6	-20.3	..
Domestic Non-Bank Financing	9.6	-253.0	-98.0	-304.5	..
Domestic Bank Financing	29.7	-220.1	-167.6	-127.3	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	35	58	80	121	80	72
Official Creditors	38	61	85	129	81	79
Multilateral	20	39	71	91	68	63
of which IBRD	0	0	0	0	0	0
of which IDA	12	17	43	41	44	44
Bilateral	17	22	14	38	13	16
Private Creditors	-3	-3	-6	-8	-1	-7
Suppliers	-1	0	0	0	1	0
Financial Markets	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0
Total LT	35	58	80	121	80	72
IMF Credit	6	-3	6	-5	13	8
Net Short-Term Capital	21	7	19	15	1	..
Total incl. IMF & Net ST	62	62	104	131	94	..

J. External Capital Flows, Debt and Debt Burden Ratios	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	118	400	509	705	749	818
Official Creditors	110	373	482	681	728	803
Multilateral	59	244	332	472	521	584
of which IBRD	0	0	0	0	0	0
of which IDA	37	137	185	252	288	328
Bilateral	51	129	150	209	208	219
Private Creditors	8	28	27	24	20	15
Suppliers	4	1	1	1	3	3
Financial Markets	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0
Total LT	118	400	509	705	749	818
IMF Credit	36	15	22	21	33	40
Net Short-Term Capital	12	31	23	37	12	12
Total incl. IMF & Net ST	166	446	554	763	794	870

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	31.33	34.15	36.39	35.72	38.41	40.12
3. IBRD+IDA as % of Total	31.33	34.15	36.39	35.72	38.41	40.12
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	3.23	15.82	8.58	10.42	8.02	8.17
3. IBRD+IDA as % of Total	3.23	15.82	8.58	10.42	8.02	8.17
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	128.37	311.81	357.19	622.37	537.92	708.19
2. IMF Credit/Exports	38.80	11.29	15.50	18.10	23.35	34.73
3. Short-Term Debt/Exports	13.04	24.15	16.13	32.66	8.91	10.31
4. LT+IMF+ST DOD/Exports	180.22	347.25	388.83	673.13	570.19	753.23
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	12.84	34.18	41.28	62.01	68.43	76.04
2. IMF Credit/GDP	3.88	1.24	1.79	1.80	2.97	3.73
3. Short-Term Debt/GDP	1.30	2.65	1.86	3.25	1.13	1.11
4. LT+IMF+ST DOD/GDP	18.02	38.06	44.93	67.07	72.54	80.88
Debt Service /Exports						
1. Public & Guaranteed LT	6.74	15.27	18.80	31.34	25.08	30.75
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	6.74	15.27	18.80	31.34	25.08	30.75
4. IMF Repurchases+Serv. Chgs.	0.76	2.57	3.09	4.33	3.16	2.51
5. Interest only on ST Debt	1.96	1.40	1.33	1.94	1.22	
6. Total (LT+IMF+ST Int.)	9.46	19.24	28.83	37.61	47.86	33.17

Notes:

e = estimated data
p = preliminary data

Cameroon

Due to a decline in the price of its major exports (petroleum, coffee and cocoa), Cameroon is in a severe financial and economic crisis in the face of which the government has taken significant measures to stabilize public finances. The gravity of the situation called for a long-term reform program with a wide economic scope. A consensus has been reached on the country's development priorities which will sharpen the sector focus of future Bank lending operations. The IMF, EC, France, Canada, and the AfDB are cofinancing operations to support Cameroon's economic recovery efforts.

The Current Economic Crisis

Cameroon, with a GNP per capita of US$1,000 and 11.2 million inhabitants in 1988, is one of Africa's most diverse countries in terms of human resources and natural geography. Agriculture, livestock, and forestry production are major potential sources for growth; the scope for expanding agriculture production of a wide range of products is significant given the favorable land/population ratio, below-potential yields and under-exploited natural resources. There are also possibilities for improving the performance of its industrial sector and for new oil discoveries. Cameroon has undergone a rapid rural-urban migration: 40 percent of the population now lives in the cities. Rapid urbanization is straining the existing urban infrastructure.

Economic growth was high (about 8 percent per annum in real terms) throughout the 1970s and until 1985. In the period after independence, Cameroon relied heavily on agriculture, which still remains the key economic sector, employing about two-thirds of the population and generating 40 percent of export receipts. However, oil became a major source of growth after 1978 when production started in Cameroon. By FY85[1] oil production accounted for more than 15 percent of GDP, 45 percent of government revenues and almost two-thirds of total merchandise exports. Oil production reached a peak of 9 million tons in FY86. Around 75 million tons of oil have been produced since 1978; proven reserves remaining to be exploited are estimated at 40 million tons. Extensions to existing fields are likely to increase this amount, but unless new reserves are discovered, Cameroon's petroleum production will decline throughout the 1990s and disappear early in the next century. Better incentives for oil exploration are being considered.

Cameroon was more fiscally cautious in the face of the commodities boom than many other countries in similar circumstances. With emphasis on balanced regional development, the country enjoyed exceptional economic and social stability, and the surge in oil revenues at the beginning of the decade was handled without major disruption. Economic growth averaged 9 percent per annum in the 1980-85 period. Since 1985, however, the fall in the US dollar-denominated prices of Cameroon's major export commodities (oil, coffee and cocoa) and the depreciation of the US dollar vis-à-vis the CFA franc have exposed major structural weaknesses in the economy and have plunged it into a deep recession. Between 1985 and 1987, Cameroon's export price index in CFA franc terms fell by 65 percent for oil, 24 percent for cocoa, 11 percent for coffee, and 20 percent for rubber, causing a 47 percent deterioration in the terms of trade. The balance of payments registered a current account deficit of 12.8 percent of GDP in FY87 compared to a deficit of 1.2 percent in FY86. These exogenous factors undermined Cameroon's economic and financial viability and brought a halt to economic growth, with GDP falling by 7.3 percent in 1987/88. It is estimated that GDP fell by a further 5.1 percent in 1988/89 and will stabilize in FY90. Last year, investment and imports fell to a trough of about 50 percent and 40 percent, respectively, below their levels of four years ago. For 1990, investment is estimated to have risen somewhat, with hardly any growth in imports. The sharpest reductions occurred in

1. Fiscal year ends June 30 of specified year.

the activities of the public sector, followed by manufacturing services. Further declines in oil production and exports are expected this year, with moderate growth in other sectors, yielding marginal growth in GDP.

The fall in export earnings, together with uncompetitive domestic interest rates which encouraged capital flight, resulted in a dramatic decline in Cameroon's net foreign assets from CFAF 156 billion in December 1985 to negative CFAF 186 billion in September 1989. This, plus withdrawal of government deposits, has led to a sharp contraction in the liquidity of the domestic banking system, which is, in turn, further constraining economic activity, and has helped to expose a number of banking failures.

In 1986/87, government revenues fell by CFAF 157 billion and, for the first time in Cameroon's history, government operations recorded a large deficit, equivalent to 12.8 percent of GDP. This deficit resulted from a 41 percent fall in oil revenues between 1984/85 and 1987/88, plus a continued increase in recurrent expenditures, mainly on personnel, and the failure to scale back public investments fast enough. It was financed by (i) a build-up of important domestic arrears (to domestic contractors working on investment projects), (ii) a drawdown of deposits held both externally and with the domestic banking system, and (iii) an increase in foreign financing. Total public and publicly-guaranteed short and long term external debt at the end of 1988-89 is estimated at US$4.7 billion, equivalent to 40 percent of GDP. The creation of domestic arrears has acted as an unanticipated tax on the private sector and has contributed to the slowdown in economic activity and to the illiquidity of the banking system.

The present economic situation in Cameroon is characterized by stagnation in traditional agriculture crops, lack of competitiveness in manufacturing, illiquidity of the financial sector, and inefficiency of public and parastatal enterprises. Agricultural production grew at an average rate of only 1.9 percent in the 1980-85 period compared to its higher growth rate of 5 percent throughout the 1970s. Before 1985, a sharp fall in international prices and the depreciation of the dollar have led to generalized subsidies to the sectors of cotton, coffee and cocoa, which in part were financed by the accumulated surpluses of the export stabilization funds and in part through accumulation of arrears owed to producers and exporters. Food crops have so far kept up with demand, yet the maintenance of food security will require substantial investments in transport, storage, and marketing infrastructure. While growth of manufacturing has been relatively fast (13 percent per annum in 1980-85), distortions in the tariff structure and incentive system have fostered the development of highly capital-intensive and inward-oriented industries. Manufacturing production has thus fallen due to the decline in domestic demand by about 15 percent over the past two years. Past growth in this sector conceals low efficiency and a limited contribution to savings and job creation by public enterprises, which account for a substantial part of the value-added of the sector. Investment, particularly foreign investment, in the industrial sector has slowed appreciably since 1980. The banking system is in grave trouble because of the rise of non-performing loans, withdrawals of government deposits and the domestic arrears associated with the fiscal deficit.

Government Adjustment Policies and Medium-Term Development Strategy

To deal with its deteriorating finances, the government first launched an austerity program in 1987/88 to reduce the budgetary deficit. This program succeeded in cutting the government's deficit to 5.8 percent of GDP in 1987/88. Total expenditures in 1987/88 were reduced by 34 percent over the previous year; on the other hand, revenue also fell to about 80 percent of the 1986/87 level. The government also began a process that was designed to lower the financial burden of the parastatals on the economy. Diagnostic studies were conducted for 75 public enterprises and banks that represent the heaviest financial burden on public resources, following which, decisions have so far been made to maintain 30 in the publicly-held portfolio, to privatize 12, and to liquidate 18. Three banks have been liquidated; one bank has been restructured; and action plans are being developed for the remaining banks which are to be restructured.

The 1988/89 budget reduced the overall deficit further to 4 percent of GDP, largely through a further reduction of capital expenditures from 7.5 percent of GDP in 1988 to 4.3 percent of GDP in 1989, and a cut in public service benefits yielding an 8 percent reduction in the overall wage bill. A medium-term development and adjustment strategy is now being supported by the Bank, the African Development Bank and other external agencies and governments. Its principal objectives are to correct the internal and external disequilibria, establish the conditions for resumed growth, and through an associated project on the social dimensions of adjustment, cushion the adverse impact of adjustment on vulnerable population groups. Stabilization of the decline in per capita income is expected after 1995. The main components of this program are: (i) restructuring of expenditure to keep the budget deficit down, while ensuring minimum levels of expenditure on essential development services; (ii) developing alternative sources of revenue to replace the lost oil revenue and taxes on agricultural exports; (iii) strengthening investment planning and follow-up to maximize the contribution to economic growth of a much reduced investment budget; (iv) the restructuring of the parastatal sector following the recommendations of the action plans; (v) reducing internal marketing costs for the major traditional agricultural exports, together with introduction of more liberalized marketing conditions; (vi) reforming industrial and commercial incentives to reinvigorate these highly protected sectors; and (vii) revitalizing the banking sector through regulatory and institutional reforms and recapitalization.

Substantial progress has already been made toward the implementation of measures incorporated in the government's adjustment program. Decision have been made to liquidate the three insolvent banks (BCD, Cambank, BPPBS), and to restructure the Société Camerounaise des Banques by retaining the sound portion of its portfolio in a newly created bank while transferring its non-performing assets into a structure created to recover such assets. Action plans to restructure the remaining three large banks are in the process of elaboration.

In the public enterprise sector, action plans have been drawn up for those enterprises in the government portfolio that are to be rehabilitated. Performance contracts are in the process of being negotiated for these enterprises. In the next phase of the process, the government is proceeding to the examination of the remaining enterprises, as well as the elaboration of a strategy for privatization and liquidation.

Measures have already been taken to reduce the number of products subject to quantitative restrictions, to liberalize prices and simplify import procedures. In addition, a calendar has been established for further liberalization measures considered essential to improve the competitiveness of the Cameroon economy.

Important decisions have also been made regarding crop prices and marketing, which will prevent further deterioration in the situation of the banking sector and eliminate the need for budgetary subsidies. In February 1989, BEAC limited its crop re-financing to the export price. In the current agricultural season, the government reduced the producer prices for cocoa by 40 percent, for cotton by 25 percent and for coffee by 60 percent, and has also compressed intermediation margins.

A first public investment program (PIP) has been established on a four-year rolling basis. This was drawn up to strike a balance between the pressing needs of the economy and financial constraints, but will need to be further cut back and rescheduled to reflect inadequate public revenues and a growing debt burden.

External Borrowing and Creditworthiness

Cameroon's public and publicly guaranteed (PPG) debt outstanding and disbursed at the end of FY89 was US$4.7 billion, representing 40 percent of GDP. Of this amount, about 23 percent was owed to multilateral institutions, (of which IBRD and IDA were owed respectively US$500 million or 12 percent of PPG, and US$239 million or 5 percent of PPG), 37 percent to bilateral sources, and 26 percent to private sources.

Cameroon's social policy objectives expressed in its Sixth Development Plan (1986-1991) are to maintain the country's food security and make health care, primary education, drinking water and electricity available to the entire population by the year 2000. However, the drastic reduction in Cameroon's financial resources will make it difficult to achieve these goals in that time horizon. In the light of the adjustment policies being undertaken, the authorities have expressed a keen interest in the Social Dimensions of Adjustment Program which the Bank has prepared and for which substantial cofinancing has been obtained. The purpose of the program is to monitor the poverty impact of the adjustment policies, assist the government in formulating a policy to alleviate the negative effects of the adjustment process of the most vulnerable population groups, and to further their food security goal. One important target for the Cameroonian economy is to create jobs for 2 million new entrants in the labor market by the year 2000. Non-agricultural sectors could probably absorb half of these job seekers while agriculture and forestry will need to absorb the remainder. This calls for policies that expand rural employment opportunities, through better calibrating incentives for agricultural production and improved support services. The government intends to maintain its high rate of school enrollment, and plans to strengthen the link between education, technical training, and the economy's real needs.

Special efforts will be made to protect the funding of human resource development as public expenditure management is reformed and the share of the government's budget allocated to essential social services can be expected to increase over the medium term, with particular focus on additional spending on material and supplies.

Medium-Term Outlook

Cameroon's growth came to a halt during FY87, and in FY88 entered a severe recession which continued throughout 1989. Recovery will be hampered by the expected continued decline in oil production that will act as a drag on the economy and the balance of payments. This makes it essential to restore external competitiveness, the precondition for increasing production of tradeable goods in the agriculture and manufacturing sectors. Even with good growth in these sectors, including a rapid growth in non-traditional exports, Cameroon will have to live with a lower level of imports. A minimum level of imports will nevertheless be required, which would imply current account deficits for at least the next five years. In addition, gross capital inflows will be required to increase net official reserves, which are now too low, and to meet sizeable amortization payments, much of which is on private non-guaranteed debt.

About one-fifth of the capital inflows mentioned above can be expected from private investors and creditors. The availability of these capital flows will be supported by the existing large amount of committed but undisbursed project loans. The balance will need to come from official creditors and will only be possible with a significant amount of quick disbursing assistance. Some additional non-project assistance may be required for two to three years after this period, which indicates the long-term nature of Cameroon's financial difficulties. In addition, the cost of restructuring public enterprises and banks and the heavy debt service obligations of the government have required rescheduling of bilateral debt with the Paris Club. The first rescheduling which occured in May 1989 covered existing arrears, as well as maturities through June 1990. Additional rescheduling will be required during the following two years. This situation is manageable provided the government increases non-oil tax revenues and is prudent in its external borrowing, searching for greater concessional loans. Revenue from new oil discoveries would reduce financing needs but only after a delay of some years.

CAMEROON

Mid-1988 Population (mils.)	11
1988 Per Capita GNP in US$:	1,010

	A. Shares of Gross Domestic Product *(from current price data)*						**B. Growth Rates(% per annum)** *(from constant price data)*				
	1965	*1973*	*1980*	*1987*	*1988p*	*1989e*	*1965-73*	*1973-80*	*1980-88*	*1988p*	*1989e*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.5	8.5	4.2	-7.3	-5.1
Net Indirect Taxes	9.2	11.1	7.5	4.7	4.4	4.2	..	..	..	..	..
Agriculture	32.7	30.8	27.9	24.4	25.3	27.0	4.6	4.5	-0.6	-8.8	0.9
Industry	20.3	18.6	25.9	29.1	29.2	27.9	4.7	16.0	5.7	-3.9	-9.5
(of which Manufacturing)	9.5	10.2	7.9	13.4	13.8	13.5	7.4	9.0	13.0	2.2	-7.4
Services	47.0	50.6	46.3	46.6	45.4	45.1	0.2	9.0	6.6	-8.7	-5.4
Resource Balance	-0.5	-3.3	-3.1	-4.6	-2.2	0.3	..	..	..	..	..
Exports of GNFS	23.8	20.7	24.1	16.5	15.8	16.3	4.4	9.4	-0.8	-11.1	-2.7
Imports of GNFS	24.3	24.0	27.2	21.1	18.0	16.0	5.3	8.7	-0.4	-20.8	-16.1
Total Expenditures	100.5	103.3	103.1	104.6	102.2	99.7	2.9	8.4	4.1	-9.4	-7.4
Total Consumption	88.0	83.4	84.3	84.3	84.6	87.2	2.0	7.0	5.2	-7.1	-2.8
Private Consumption	74.9	71.8	75.5	72.4	75.2	78.2	1.7	7.5	4.8	-5.0	-1.5
General Government	13.0	11.6	8.7	11.9	9.4	9.0	4.6	3.7	7.8	-20.2	-12.5
Gross Domestic Investment	12.5	19.9	18.9	20.3	17.6	12.5	8.6	14.4	0.4	-19.0	-29.1
Fixed Investment	..	..	18.0	20.1	..	..	..	..	..	..	..
Changes in Stocks	..	..	0.9	0.2	..	..	..	..	..	..	..
Gross Domestic Saving	12.0	16.6	15.7	15.7	15.4	12.8	6.0	11.8	0.1	-8.4	-17.3
Net Factor Income	-6.7	-7.8	-9.0	-3.8	-3.5	-3.6	..	..	..	..	..
Net Current Transfers	0.0	-1.3	0.0	-0.9	-1.2	-0.6	..	..	..	..	..
Gross National Saving	5.3	7.5	6.8	11.0	10.8	8.6	-2.8	19.4	3.4	-8.4	-16.8

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988p*	*1989e*					
Gross Domestic Product	1,261	1,531	2,804	4,005	3,712	3,524	2.5	8.5	4.2	-7.3	-5.1
Capacity to Import	324	374	665	661	587	571	3.8	6.3	-0.8	-11.1	-2.7
Terms of Trade Adjustment	81	49	0	-485	-501	-522	..	..	..	-3.3	-4.2
Gross Domestic Income	1,341	1,580	2,804	3,520	3,211	3,002	2.5	7.8	4.2	-8.8	-6.5
Gross National Product	1,184	1,398	2,526	3,854	3,583	3,404	2.1	8.6	5.1	-7.0	-5.0
Gross National Income	1,265	1,447	2,526	3,380	3,088	2,907	2.1	7.8	5.1	-8.6	-5.9

			(1987 = 100)				*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988p*	*1989e*	*1965-73*	*1973-80*	*1980-88*	*1988p*	*1989e*
Consumer Prices (IFS 64)	53.1	87.6	94.4	100.0	108.6	..	5.5	11.9	9.2	8.6	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	56.0	97.8	98.4	100.0	101.4	104.3	7.4	10.7	8.0	1.4	2.8
Implicit Expenditures Defl.	56.0	97.8	98.4	100.0	101.4	104.3	7.4	11.5	8.0	1.4	2.8

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.4	3.1	3.2
Labor Force	..	..	..
Gross Natl. Income p.c.	-0.3	4.5	1.8
Private Consumption p.c.	-0.7	4.2	1.6
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	2.1	1.0	-0.1
Marginal Savings Rates:			
Gross National Saving	23.5	6.5	19.9
Gross Domestic Saving	43.4	14.7	14.6
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988p*
Agriculture	86.3	79.2	69.9	..
Industry	4.4	6.1	8.3	..
Services	9.2	14.7	21.9	..
Total	100.0	100.0	100.0	100.0

	Volume Index						Value at Current Prices (millions US$)					
E. Merchandise Exports	*1980*	*1985*	*1986*	*1987*	*1988p*	*1989e*	*1980*	*1985*	*1986*	*1987*	*1988p*	*1989e*
X.FUEL	28.0	105.1	105.3	100.0	90.5	86.7	398	1,533	1,084	800	802	687
X.BEV.COFFEE	113.8	106.8	113.9	100.0	119.3	122.3	326	234	288	262	200	200
X.BEV.COCOA	66.8	97.8	84.4	100.0	99.1	101.6	277	226	249	275	189	140
X.TIM	69.7	92.6	100.3	100.0	103.0	..	158	77	85	77	83	..
Manufactures	..	..	..	..	..	..	119	126	123	133	154	150
Residual	..	..	..	..	..	..	140	141	168	162	211	293
Total Exports FOB	..	..	..	..	..	..	1,418	2,337	1,997	1,709	1,639	1,470
F. Merchandise Imports												
Food	33.4	45.7	73.8	100.0	96.5	75.6	80	92	144	184	171	132
Fuel and energy	1754.4	43.9	82.5	100.0	56.1	52.6	184	8	10	9	6	5
Other Consumer Goods	71.9	82.1	99.1	100.0	84.3	65.0	158	149	222	274	254	184
Other Intermed. Goods	..	..	..	..	..	..	649	456	649	778	617	545
Capital goods	98.5	117.7	113.4	100.0	81.4	57.7	382	382	453	489	436	291
Total Imports CIF	95.3	87.5	99.7	100.0	80.1	65.8	1,452	1,088	1,477	1,734	1,484	1,156

G. Merchandise Terms of Trade	*1980*	*1985*	*1986*	*1987*	*1988p*	*1989e*
Merch. Exports Price Index	..	200.0	140.0	100.0	92.0	92.0
Merch. Imports Price Index	..	106.0	104.0	100.0	98.0	102.0
Merch. Terms of Trade	..	189.0	136.0	100.0	94.0	91.0

	US$ millions (at current prices)					
H. Balance of Payments	*1980*	*1985*	*1986*	*1987*	*1988p*	*1989e*
Exports of Goods & NFS	1,807	2,798	2,493	2,073	2,043	1,865
Merchandise (FOB)	1,418	2,337	1,997	1,709	1,639	1,470
Non-Factor Services	389	461	496	364	404	395
Imports of Goods & NFS	2,042	1,898	2,473	2,645	2,324	1,831
Merchandise (FOB)	1,452	1,088	1,477	1,734	1,484	1,156
Non-Factor Services	589	810	996	911	840	674
Resource Balance	-235	900	20	-572	-281	34
Net Factor Income	-164	-539	-561	-474	-452	-411
(interest per DRS)	119	136	189	179	192	125
Net Current Transfers	3	-33	-60	-125	-148	-70
(workers' remittances)	11	1	2	3	3	3
Curr. A/C Bal. before Off. Transf.	-478	328	-601	-1,171	-881	-447
Net Official Transfers	83	0	0	0	0	0
Curr. A/C Bal. after Off. Transf.	-395	328	-601	-1,171	-881	-447
Long-Term Capital Inflow	615	26	-126	561	233	81
Direct Investment	105	21	0	31	34	31
Net LT Loans (DRS data)	498	-158	85	92	292	253
Other LT Inflow (Net)	12	163	-211	439	-93	-203
Total Other Items (net)	-75	-315	905	91	600	250
Net Short Term Capital	-230	-526	742	279	-144	31
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	155	211	163	-188	744	218
Changes in Net Reserves	-145	-39	-178	519	48	116
Net Credit from the IMF	-17	0	0	0	0	0
Other Reserves Changes	-128	-39	-178	519	48	116
As Share of GDP:						
Resource Balance	-3.1	11.0	0.2	-4.6	-2.2	0.3
Interest Payments	1.6	1.7	1.8	1.4	1.5	1.1
Current Account Balance	-6.4	4.0	-5.6	-9.3	-6.8	-3.8
Memorandum Items:						
Reserves excl. Gold (mil. US$)	189	132	59	64	150	..
Reserves incl. Gold (mil. US$)	206	142	71	78	163	0
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	100.00	98.80	109.48	122.65	118.78	109.94
GDP (millions of current US$)	7,499	8,148	10,696	12,568	12,903	11,650

I. Central Government Budget	Share of GDP (%) 1980	1985	1986	1987	1988p	1989e	Growth Rates 1980-84	1986	1987	1988p	1989e
Total Receipts	15.8	19.6	21.1	18.2	16.2	15.2	..	22.8	-17.9	-16.9	..
Current Expenditures	10.4	11.5	11.0	13.3	14.1	14.0	..	3.4	17.1	-0.4	..
Current Budget Balance	5.4	8.2	10.6	5.2	..	..	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	5.0	10.7	11.4	17.4	7.5	4.3	..	3.9	47.7	-59.3	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	0.4	-2.5	-1.2	-12.8	-5.8	-4.0	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	-2.1	1.6	1.2	2.9	4.3	4.4	..	..	..	..	..
Domestic Non-Bank Financing	-0.2	-0.3	-0.1	3.6	0.6	2.8	..	..	..	..	..
Domestic Bank Financing	-1.0	1.6	0.6	-0.1	-1.6	1.2	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988p	1989e	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988p	1989e
Public & Publicly Guar. LT	480	52	124	76	405	293	2,005	2,003	2,399	2,781	2,939	3,354
Official Creditors	219	94	152	143	140	195	1,181	1,571	1,917	2,272	2,221	2,811
Multilateral	60	56	85	81	26	80	422	691	873	1,096	1,048	1,095
of which IBRD	24	31	45	47	12	68	152	287	401	545	508	572
of which IDA	19	3	3	5	3	-1	146	227	231	239	240	239
Bilateral	159	38	67	61	114	115	759	880	1,044	1,176	1,173	1,716
Private Creditors	261	-42	-28	-67	265	98	825	432	483	509	718	543
Suppliers	-7	-2	-1	-4	-1	0	141	102	127	151	134	3
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	18	-210	-40	16	-112	-40	178	381	505	520	427	380
Total LT	498	-158	85	92	292	253	2,183	2,384	2,904	3,301	3,366	3,734
IMF Credit	-5	-6	-8	-9	85	15	59	27	22	16	100	113
Net Short-Term Capital	-230	-526	742	279	-144	31	271	529	784	722	763	838
Total incl. IMF & Net ST	263	-690	818	362	234	299	2,513	2,940	3,710	4,039	4,229	4,685

Bank and IDA Ratios	1980	1985	1986	1987	1988p	1989e
Share of Total Long-Term DOD						
1. IBRD as % of Total	6.97	12.04	13.82	16.51	15.10	15.32
2. IDA as % of Total	6.68	9.50	7.96	7.23	7.13	6.40
3. IBRD+IDA as % of Total	13.65	21.55	21.78	23.74	22.23	21.72
Share of LT Debt Service						
1. IBRD as % of Total	7.12	5.81	8.08	12.10	14.37	22.16
2. IDA as % of Total	0.69	0.45	0.46	0.50	0.63	1.00
3. IBRD+IDA as % of Total	7.81	6.26	8.54	12.60	15.00	23.16
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	118.75	84.53	113.80	155.70	159.67	198.42
2. IMF Credit/Exports	3.20	0.97	0.87	0.76	4.76	6.01
3. Short-Term Debt/Exports	14.71	18.75	30.71	34.07	36.18	44.51
4. LT+IMF+ST DOD/Exports	136.66	104.25	145.37	190.53	200.61	248.94
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	29.12	29.25	27.15	26.26	26.09	32.06
2. IMF Credit/GDP	0.78	0.34	0.21	0.13	0.78	0.97
3. Short-Term Debt/GDP	3.61	6.49	7.33	5.75	5.91	7.19
4. LT+IMF+ST DOD/GDP	33.51	36.08	34.68	32.14	32.77	40.22
Debt Service /Exports						
1. Public & Guaranteed LT	10.11	8.46	11.88	15.81	11.84	9.70
2. Private Non-guaranteed LT	2.57	12.84	12.16	11.33	15.13	10.58
3. Total Long-Term Debt Service	12.68	21.30	24.04	27.14	26.97	20.28
4. IMF Repurchases+Serv. Chgs.	1.01	0.21	0.32	0.42	0.43	0.72
5. Interest only on ST Debt	1.52	1.24	1.57	3.07	3.51	4.41
6. Total (LT+IMF+ST Int.)	15.21	22.75	25.93	34.05	30.91	25.41

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Cape Verde

Cape Verde consists of ten islands located 650 km off the coast of Senegal, with a land area of 4,000 square kilometers. Half of the total population of 352,000 lives on the island of Santiago, where Praia (the capital) is located. The annual population growth rate is estimated to have averaged 2.8 percent per annum during the 1980s, although growth of the resident population is lower, at about 2.2 percent per annum, owing to emigration. GNP per capita was estimated at US$680 in 1988.

Cape Verde's sustained development is hindered by its poor natural resource base and long cycles of drought. Moreover, the scattered nature of the islands gives rise to costly communications while the small domestic market hampers industrial growth. As a result of a migratory tradition reinforced by drought and high unemployment, the number of Cape Verdeans living abroad exceeds the population on the islands. Remittances from emigrants have provided an important flow of resources and played a key role in alleviating poverty. At the same time, public works programs, financed by funds generated through sales of food aid, and growing attention to social services have moderated the most extreme aspects of poverty and led to marked improvements in the population's health. Notwithstanding formidable constraints, Cape Verde's location and certain of its physical characteristics are favorable for activities linked to international sea and air transport, and the development of tourism and other outward-oriented endeavors.

The structure of Cape Verde's economy is overwhelmingly oriented toward services, which contributed about 69 percent of GDP in 1989, of which commerce, transport and public services accounted for 56 percent. Industrial production, which consists largely of light manufacturing, fisheries processing and artisanal production, accounted for about 17 percent of GDP. The agricultural sector contributed only 14 percent of GDP, reflecting the country's poor agricultural potential due to inadequate water supply.

Despite severely limited resources and a prolonged period of drought, Cape Verde achieved a favorable economic performance during the 1980s, with real GDP growth averaging 5 percent per annum. This was due primarily to sound economic and financial management and exploitation of available resources. National income has also been supplemented by substantial remittances from emigrants, fluctuating between 15 percent and 25 percent of GDP. The country's strategic location has made it a refueling and servicing point for ships and aircraft, leading to substantial net service receipts. Cape Verde's good relations with a broad spectrum of countries, and its reputation for sound economic management, have enabled it to obtain significant concessional assistance. These factors combined have enabled the country to maintain a positive balance of payments since independence in 1975.

Recent Economic Developments

Production and Prices. During 1987-88, real growth is estimated to have averaged about 5 percent per annum, or about 3 percent per capita, a continuation of the average growth rate experienced since 1980. This growth performance was led by a surge in industrial activity (including construction), which expanded at an annual average rate of about 6 percent in real terms. Agriculture expanded in real terms at 4 percent on average during the same two-year period. Services also expanded, but at the modest rate of 3 percent per annum.

The consumer price index rose 3.8 percent in 1987, compared with an 11.1 percent increase in 1986, reflecting mainly a deceleration in the increase in food prices that resulted from increased domestic production and a fall in the world market prices for maize and other cereals. For 1988, consumer prices rose by an estimated 8.2 percent, reflecting sharply increased world market prices for maize and other cereals. Most prices in Cape Verde are market determined, and there are no official producer prices. Government price control intervention is limited to setting maximum wholesale and retail margins on some commodities; and the prices of essential imported goods, mainly food aid. Most food aid prices reflect world market prices. Government also subsidizes water users' fees.

Public Finance. The government has pursued a policy of financing recurrent expenditures with domestic revenue, and financing development expenditures through concessional foreign loans and grants. The overall fiscal deficit (excluding grants) declined to 25 percent of GDP (from 29 percent of GDP in 1986) in 1987, and to 18 percent of GDP in 1988. Nonetheless, in 1988 pressures emerged on domestic financing of the budget, due to a combination of increased recurrent expenditure, a continued decline in foreign financing, and actual revenue collection lower than expected in the budget. In mid-year, as actual revenue appeared short of target, recurrent expenditure was contained. This entailed, *inter alia*, postponing an envisaged wage increase for the civil service. Despite expenditure cutting measures, the government was able to balance the recurrent budget only by building up arrears on external debt service payments. In 1988, investment expenditures declined substantially for the second consecutive year, reflecting the completion of major projects and delays in starting up new projects (see below).

Government investment priorities for the period 1986-90 are discussed in Cape Verde's Second National Development Plan (SNDP). The SNDP was reviewed by the Bank and other donors at a Round Table meeting in December 1986. The SNDP emphasizes the productive sectors: rural development, industrial fisheries, tourism, and construction activities; and gives higher priority to the social sectors than the first plan. The implementation of the SNDP started on schedule in 1986, but there have been delays in project preparation and as a result actual expenditures have been lower than envisaged under the plan.

Monetary Developments. Cape Verde's banking system consists of one financial institution, the Bank of Cape Verde (BCV), which serves the triple function of central, commercial, and development bank. The BCV's Investment Department was instituted in 1986 to administer four foreign lines of credit aimed at promoting agriculture, fisheries, small-scale industry, and rehabilitation of infrastructure. The BCV generally targets an annual increase in the money supply broadly in line with expected GDP growth and inflation. Approximate indicative credit limits are then formulated by broad sectoral categories, with the aggregate change in net domestic assets based on projected movements in net foreign assets. For 1987-88, the BCV's balance of payments estimates proved to be conservative, with the actual improvement in net foreign assets significantly exceeding projections. As credit to the public sector was well below projections, the BCV could easily accommodate significant increases in credit to the private sector. These increases were mainly in response to strong demand for housing and small-scale construction financing.

There has been no change in domestic interest rates since 1985, when rates were raised by 3-4 percentage points and the range of deposit maturities was increased. Since the adoption of these measures, real interest rates have been positive. At the same time, the BCV established special savings accounts for emigrants, denominated in foreign exchange with variable rates linked directly to prevailing rates in the Euro-market. In response to the increase in interest rate incentives, time and savings deposits by emigrants rose from 2 percent to 11 percent of total deposits during the period 1985-88.

External Developments. Cape Verde's external position is characterized by large structural deficits. During 1984-86, the current account deficit (excluding official transfers) averaged 32 percent of GDP. Developments during 1987-88 led to a significant narrowing of this deficit to an estimated 15 percent of GDP in both 1987 and 1988. The export base remained small, averaging only about 3.5 percent of GDP, as some export contracts (for fish, salt, and textiles) were terminated or interrupted, although a number of promising new small-scale industries were initiated. Imports relative to GDP stagnated, as increases in imports of other goods were compensated by a fall in food aid and commercial food imports in response to improved domestic output. The trade account also reflected the continued application of restrictions on the aggregate value and composition of imports. Net service receipts rose substantially, from about US$14 million in 1986 to an average of about US$19 million in 1987-88. This resulted from a recovery in services provided to shipping, particularly to Eastern European fleets, a rise in tourism, and a reduction of outflows for factor services, mainly lower interest payments. Inflows of emigrant remittances continued to rise, from US$29 million in 1986 to about US$35 million in 1988. The United States and The Netherlands remained the major source countries for these remittances.

Official transfers were unchanged in 1987, at US$47 million, and declined to about US$42 million in 1988. This was due partly to a contraction in food aid. The capital account fell sharply, reflecting reduced drawings and higher amortization payments stemming from the completion of two major projects and the repayments on some debts contracted on quasi-commercial terms. The overall balance of payments showed a surplus of about US$13 million in 1987. The surplus in 1988 is estimated at US$8 million.

Gross reserves, which had reached the equivalent of 7.2 months of imports at end-1986, rose to the equivalent of 9.5 months of imports at end-1988. Despite this increase, Cape Verde continued to accumulate external payments arrears in 1987-88. These arrears reflected BCV's efforts to contain the government's domestic bank borrowing and bank financing of the operations of parastatals (including debt service). In part reflecting the accumulation of arrears, the debt service ratio fell from 13.6 percent in 1986 to 11.7 percent in 1987-88.

The government continued to pursue a cautious exchange rate policy, with the Cape Verde Escudo pegged to a basket of nine major currencies. In 1987, the trade- and remittance-weighted real effective exchange rate showed a depreciation of 2.3 percent; since 1980 there has been a cumulative depreciation of about 14 percent in the rate.

Development Strategy

In order to reduce Cape Verde's dependence on external inflows from remittances, concessional assistance, and net service receipts, as well as to enhance growth prospects and improve efficiency, the government is seeking to increase significantly private sector participation in economic activity. Foreign investment is now considered essential for stimulating the national economy, and the government is encouraging joint ventures with foreign capital. In sectoral terms, the reorientation of the economic system will focus on development of activities where Cape Verde is perceived to have a comparative advantage, such as fisheries, tourism, and international services. Government will pursue a dynamic policy of opening up the economy to new approaches and mechanisms aimed at making Cape Verde competitive in the international labor market (off-shore activities, free trade zones, warehousing and telecommunications).

Appropriate incentives to encourage increased private sector involvement in the economy have been incorporated in recently enacted legislation. Government also intends to maintain an appropriate macroeconomic policy framework, including disciplined fiscal and monetary policies, an aggressive interest rate policy to attract further foreign and domestic savings, and an exchange rate policy that ensures an adequate real effective exchange rate for export promotion. Moreover, under the Third National Development Plan, currently under preparation, government will focus the public investment program on infrastructure projects in support of private sector development. While promoting private sector activities, government will also adopt measures aimed at improving efficiency in the public sector. To this end, it is preparing an administrative reform program that focuses on strengthening coordination among public sector agencies while rationalizing decision-making processes through decentralization of responsibilities.

Medium-Term Prospects

The government expects that the new economic policies will have a rapid impact on the economy, in particular because of the anticipated growth in tourism. In 1988, earnings from tourism contributed some 8 percent of net foreign exchange earnings from services, and prospects are for a rapid expansion. Contracts have already been signed with two European companies for major investments in hotels with construction to have started in early 1990, and negotiations are proceeding with other companies. These developments should have a major impact on tourism-related services. With external technical assistance, the government is actively pursuing other promising areas of foreign investment that aim in particular at promoting increased foreign exchange earnings. Other potential areas of foreign investment include development of a free trade zone, entrepot activities, teleport facilities, and offshore banking.

Preliminary projections for balance of payments and external debt for 1989-93 assume that government will continue to limit its use of domestic bank financing to cover the fiscal deficit; that the growth in the money supply will be contained broadly in line with the growth in nominal GDP; and that the real effective exchange rate will remain unchanged at the end-1988 level. These assumptions lead to a slight improvement of the current account (excluding grants). Exports in value terms are expected to grow; volumes would also increase. Import values are projected to increase by less than export values.

Service earnings (net) are projected to rise, reflecting mainly developments in the tourism sector. This reflects government's views regarding the limited short-term prospects for significantly increased earnings from shipping and aircraft servicing, while a substantial increase in tourism receipts is expected beginning in 1991, when ongoing and some expected investments would be completed. Interest payments are projected to rise as the share of loans expands in the foreign financing of investments under the Third Plan. Earnings and remittances are projected to remain constant. This is consistent with government's cautious stance, given the uncertain growth prospects for employment opportunities in some host countries in the medium term.

As noted above, the financing of the current account deficits is likely to show some increase in the share of concessional loans. Private capital inflows are projected to rise rapidly in response to government's efforts to encourage foreign investment, especially in the tourism sector, even though in absolute terms the levels would remain low. The overall balance of payments shows declining surpluses until 1993. Based on these projections, the level of reserves would decline after 1990, from the equivalent of about 10 months of imports.

The stock of Cape Verde's external debt is projected to increase between 1989 and 1993, reflecting the trend toward concessional loans in lieu of grants. However, average interest rates are expected to decline slightly, as highly concessional borrowing is projected to dominate. The debt service burden (including payment of arrears) was equivalent to 12 percent of earnings from merchandise exports, services, and remittances in 1988 and is estimated at 16 percent in 1989; it is expected to decline to a sustainable 12 percent by 1993. Government is cognizant of the need to be cautious with regard to incurring new debt, and limit the use of government guarantees for public enterprises and for joint ventures with foreign investment partners.

Even with satisfactory economic management and careful marshalling of resources, Cape Verde will continue to depend on external support for a portion of consumption and investment needs. This support should be as much as possible through grants, and loans should be on highly concessional terms. High per capita volumes of aid and strengthened aid coordination would be needed to ensure successful implementation of government's new economic policies.

CAPE VERDE

Mid-1988 Population (thous.)	360
1988 Per Capita GNP in US$:	680

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	1973	1980	1987	1988	1989	1965-73	1973-80	1980-88	1988	1989
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	6.5	5.8	3.2	5.5
Net Indirect Taxes	..	6.2	8.2	7.2	6.9	6.5	..	..	..	..	..
Agriculture	..	12.2	18.7	15.0	14.6	14.4	..	..	3.9	4.0	3.8
Industry	..	23.9	16.8	17.1	16.7	17.1	..	..	6.7	5.1	8.0
(of which Manufacturing)	..	..	5.1	7.5	8.0	8.8	..	..	10.5	15.0	10.0
Services	..	63.9	64.5	67.9	68.7	68.5	..	..	6.1	2.5	5.2
Resource Balance	..	-43.0	-49.9	-39.8	-40.4	-38.3	..	..	..	..	..
Exports of GNFS	..	20.7	17.1	22.1	16.8	14.5	..	-6.4	5.7	-19.2	3.8
Imports of GNFS	..	63.7	67.0	61.9	57.2	52.7	..	10.3	6.4	-3.3	-6.0
Total Expenditures	..	143.0	149.9	139.8	140.4	138.3	..	10.6	6.1	3.8	1.0
Total Consumption	..	123.4	108.0	95.5	98.7	96.0	..	8.4	5.8	4.1	0.4
Private Consumption	..	114.7	93.3	72.1	74.5	76.4	..	8.1	4.0	4.3	2.5
General Government	..	8.7	14.7	23.4	24.2	19.6	..	13.2	13.6	3.4	-6.0
Gross Domestic Investment	..	19.7	41.9	44.3	41.7	42.3	..	17.7	6.7	3.2	2.2
Fixed Investment	..	..	38.7	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	3.1	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	-23.4	-8.0	4.5	1.3	4.0	..	..	..	-22.8	70.4
Net Factor Income	..	-3.4	0.6	-1.1	-0.2	-0.3	..	..	..	..	..
Net Current Transfers	..	..	27.9	34.6	30.9	..	..	..	..	..	..
Gross National Saving	..	-26.8	20.5	18.0	16.1	3.7	..	..	-4.7	4.3	-70.5

In millions of LCUs (at constant 1987 prices)	1965	1973	1980	1987	1988	1989	1965-73	1973-80	1980-88	1988	1989
Gross Domestic Product	..	6,581	11,230	16,978	17,517	18,483	..	6.5	5.8	3.2	5.5
Capacity to Import	..	1,478	1,713	3,745	2,981	2,615	..	-0.2	7.3	-20.4	-12.3
Terms of Trade Adjustment	..	-1,329	-270	0	-47	-528	..	..	..	..	..
Gross Domestic Income	..	5,249	10,960	16,978	17,470	17,954	..	9.2	6.1	2.9	2.8
Gross National Product	..	5,741	11,294	16,798	17,484	18,419	..	8.7	5.8	4.1	5.3
Gross National Income	..	4,409	11,024	16,798	17,437	17,891	..	12.0	6.1	3.8	2.6

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	1985	1986	1987	1988	1989	1965-73	1973-80	1980-88	1988	1989
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	50.9	81.9	96.4	100.0	108.2	119.4	..	8.1	9.9	8.2	10.3
Implicit Expenditures Defl.	53.7	92.7	101.8	100.0	108.0	122.6	..	7.3	8.9	8.0	13.5

D. Other Indicators: Growth Rates(% p.a.):	1965-73	1973-80	1980-88	
Population	2.0	1.2	2.2	
Labor Force	..	..	..	
Gross Natl. Income p.c.	..	10.7	3.8	
Private Consumption p.c.	..	6.8	1.7	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	..	1.6	1.1	
Marginal Savings Rates:				
Gross National Saving	..	82.2	8.5	
Gross Domestic Saving	..	13.7	17.7	
ICOR (period averages):	..	..	..	
Share of Total Labor Force in:	1965	1973	1980	1988
Agriculture	67.1	60.3	51.7	..
Industry	13.8	17.8	22.7	..
Services	19.1	21.8	25.6	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	*Volume Index*						*Value at Current Prices (millions US$)*					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
X.FOOD.FISH	..	..	..	..	..	..	3	2	2	..	..	..
X.OAGRI	..	..	..	..	..	..	..			..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	6	1	..	..	..	..
Total Exports FOB	..	..	..	..	..	..	9	3	..	..	..	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	22	18	21	..	..	..
Fuel and energy	..	..	..	..	..	..	4	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports CIF	..	..	..	..	..	..	81	91	..	..	..	..

G. Merchandise Terms of Trade	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	*US$ millions (at current prices)*					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*
Exports of Goods & NFS	..	..	..	..	..	..
Merchandise (FOB)	9	6	5	12	4	..
Non-Factor Services	..	..	..	..	..	..
Imports of Goods & NFS	..	..	..	..	..	..
Merchandise (FOB)	..	92	92	101	105	..
Non-Factor Services	..	..	..	..	..	..
Resource Balance	..	-70	-68	-67	-79	..
Net Factor Income	..	-4	-4	-3	-1	..
(interest per DRS)	0	3	2	3	4	4
Net Current Transfers	40	22	27	34	40	0
(workers' remittances)	0	0	0	0	0	0
Curr. A/C Bal. before Off. Transf.	-25	-52	-45	-36	-40	..
Net Official Transfers	0	37	42	47	42	..
Curr. A/C Bal. after Off. Transf.	-25	-14	-3	11	2	..
Long-Term Capital Inflow	32	13	8	4	7	..
Direct Investment	..	..	..	..	..	..
Net LT Loans (DRS data)	3	19	8	4	7	9
Other LT Inflow (Net)	29	-6	0	0	0	..
Total Other Items (net)	-1	6	-2	-2	-1	..
Net Short Term Capital	0	0	0	0	0	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-1	6	-2	-2	-1	..
Changes in Net Reserves	-6	-5	-4	-13	-8	..
Net Credit from the IMF	..	..	..	..	..	..
Other Reserves Changes	-6	-5	-4	-13	-8	..
As Share of GDP:						
Resource Balance	..	-50.7	-35.5	-28.7	-30.1	..
Interest Payments	0.1	1.9	1.0	1.5	1.3	1.3
Current Account Balance	-17.6	-37.6	-23.5	-15.2	-15.2	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	36	48	57	..	..	..
Reserves incl. Gold (mil. US$)	36	48	57	0	0	0
Official X-Rate (LCUs/US$)	40.17	91.63	80.14	72.47	72.07	77.98
Index Real Eff. X-R Base 1980	100.00	115.43	112.15	114.74	115.55	113.97
GDP (millions of current US$)	142	138	191	234	263	283

Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-85	1986	1987	1988	1989
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J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	3	19	8	4	7	9	22	97	110	124	126	131
Official Creditors	3	18	8	4	7	9	22	95	107	121	123	128
Multilateral	3	11	6	3	5	6	19	55	65	74	77	80
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	0	2	2	1	1	3	0	3	5	6	7	11
Bilateral	0	8	2	1	2	4	4	40	42	46	46	48
Private Creditors	0	1	1	0	0	0	0	2	3	3	3	3
Suppliers	0	0	0	0	0	0	0	0	0	0	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	3	19	8	4	7	9	22	97	110	124	126	131
IMF Credit	0	0	0	0	0	0	0	0	0	0	0	0
Net Short-Term Capital	0	0	0	0	0	..	0	1	7	11	7	11
Total incl. IMF & Net ST	3	19	8	4	7	..	22	98	117	134	133	141

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	3.08	4.18	5.09	5.80	8.20
3. IBRD+IDA as % of Total	0.00	3.08	4.18	5.09	5.80	8.20
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	2.33	1.41	1.37	1.35
3. IBRD+IDA as % of Total	0.00	0.00	2.33	1.41	1.37	1.35
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	..	..	..	..	..
2. IMF Credit/Exports	..	..	..	..	..	..
3. Short-Term Debt/Exports	..	..	..	..	..	..
4. LT+IMF+ST DOD/Exports	..	..	..	..	..	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	15.61	70.62	57.73	52.80	47.83	46.13
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/GDP	0.00	0.73	3.62	4.52	2.59	3.82
4. LT+IMF+ST DOD/GDP	15.61	71.35	61.35	57.32	50.42	49.94
Debt Service /Exports						
1. Public & Guaranteed LT	..	..	..	..	..	..
2. Private Non-guaranteed LT	..	..	..	..	..	..
3. Total Long-Term Debt Service	..	..	..	..	..	..
4. IMF Repurchases+Serv. Chgs.	..	..	..	..	..	..
5. Interest only on ST Debt	..	..	..	..	..	..
6. Total (LT+IMF+ST Int.)	..	..	..	..	..	..

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Central African Republic

The Central African Republic (CAR) is a landlocked country, the size of France, in the heart of the continent with an estimated population of some 2.7 million in 1987. With a per capita GNP of only US$370 in 1988, it belongs to the group of least developed countries. The primary sector, including agriculture, forestry, and fisheries is the mainstay of the economy. It accounted for 42 percent of GDP and 49 percent of commodity exports in 1989 and is estimated to occupy four-fifths of the population. Mining, manufacturing and utilities (14 percent), construction (2 percent), and services (42 percent) account for the balance of GDP. Except for life expectancy at birth, which at 50 years is within the average for Sub-Saharan Africa, the human resource profile for the CAR is below average for Sub-Saharan Africa (adult literacy rate of 40 percent and primary enrollment ratio of 66 percent).

The CAR's landlocked position, difficult transportation conditions, sparsely populated area, limited domestic market, and weak human resource base are the principal constraints to development of its economy. Bottlenecks in the routes to the sea through the Congo (river/rail) and through Cameroon (road/rail) substantially raise production and inventory costs and reduce export competitiveness. Falling real producer prices for cash crops, state intervention in virtually all economic activities, unsound public investments, expansion of the civil service, unviable public enterprises, and expensive borrowing led to major external and internal imbalances which were financed through the accumulation of internal and external arrears.

Sustained attempts at moving away from the economic mismanagement of the late 1970s, which had caused considerable social and economic dislocation and international isolation, began only in 1982 when the government pursued sustained efforts to promote economic recovery. Since 1986 a sustained effort at lifting the structural constraints to growth was initiated. The IMF, the Bank, the African Development Bank, the EC, and France, along with other bilateral donors, have provided substantial financial support to the CAR's adjustment effort.

Recent Developments

Because financial imbalances were substantial, efforts focussed on reducing the budget and current account deficits first. On the whole, economic performance since 1986, the beginning of the adjustment program, has been mixed. Overall real growth was modest during the 1986-89 period; the budget deficit and the current account of the balance of payments narrowed, but less than originally forecast; overall price stability, however, was achieved. The price shocks of the past two years have had a wide impact on economic activity in the modern sector and have severely undermined domestic resource mobilization, making internal and external balance all the more difficult to achieve. Export prices fell sharply for coffee (1989 CFAF prices were 54 percent lower than in 1985) and cotton (1989 prices had recovered somewhat over their depressed levels of 1986-1987, but were still 18 percent lower than in 1985). Together with difficulties in paying agreed support prices for these commodities, this depressed agricultural demand, which in turn depressed demand for industrial products and services. Restructuring of the public enterprise sector led to the closure of three banks and seven public enterprises, while some foreign enterprises either left the country or reduced their operations. As a result, job opportunities for new entrants to the labor market narrowed, creating an atmosphere of crisis.

Growth averaged a meager 1.5 percent per annum in 1986-88, rising to 3.7 percent only in 1989. With population growing at 2.5 percent a year, this led to a cumulative decline in per capita income of around 4 percent over the same period. Current expenditure was contained mainly through strict control of the civil service wage bill and the level of on-lending, while public investment fell as a share of GDP to 7 percent in 1989 from 10 percent in 1986. The current account deficit improved from 16 percent of GDP in 1986 to 14 percent in 1989 largely as a result of exceptional export levels for diamonds and coffee in 1989. However, domestic resource mobilization is still deficient, domestic savings are extremely low, and the investment program remains heavily dependent on foreign financing. These problems are compounded by the volatility of international prices for the CAR main exports.

The drop in coffee and cotton export price combined with the sharp drop in the cotton export volume (20 percent) caused merchandise exports to decline from CFAF 58.7 billion in 1985 to CFAF 49.7 billion in 1989. The debt service ratio increased from 18 percent in 1986 to 28 percent in 1989, an increase which reflects both weak export performance and the fact that a large share of CAR external debt is denominated in French francs which appreciated considerably vis à vis the dollar, in which export prices are expressed.

CAR has been included in the list of debt distressed low-income countries and is eligible for financing under the Special Program of Assistance (SPA). CAR benefitted from substantial debt relief from the Paris Club creditors in December 1988 and further debt relief is expected to be granted in mid-1990. Also, France has recently forgiven all of its official concessional loans to the CAR (US$40.3 million).

The rapid depreciation of the dollar against the CFAF and the strength of the CFAF against the parallel rate of the zaire, in neighboring Zaire, has eroded the export competitiveness of CAR's main agricultural commodity exports. In an effort to reduce this erosion, CAR obtained a depreciation of the real effective exchange rate through an internal adjustment process, mainly by keeping domestic inflation below that of its trading partners. To that effect, the government has adhered to a restrictive monetary policy, reduced production costs where at all possible, and contained the compensation package for civil servants and public enterprise employees. This strategy intends to switch domestic demand from tradeables and shift incentives to their production. Since this policy requires a reduction in the real wage level, civil service wages have been frozen in nominal terms since 1982, and employment in the civil service and state enterprise sector has been reduced by about 10 percent and 25 percent respectively.

Similarly, producer prices and intermediation margins for coffee were reduced by 40 percent and 16 percent, respectively, for the 1989-90 campaign. The cotton sector improved its financial performance by reducing intermediation costs, and enhancing productivity; as a result, production costs fell by about one-third. A flexible producer price was also introduced. Despite these cost reductions the government will have to provide the cotton and coffee sectors with subsidies equivalent to 1 percent of GDP in 1990. As a result of the price liberalization and the removal of trade barriers, together with prudent financial policies, consumer prices fell in 1987-88 and were virtually unchanged in 1989. This led in 1987-89 to a 17 percent real exchange rate (index) depreciation. For the next crop season, the government will adopt a flexible pricing formula for coffee to ensure that producer prices better reflect world market prices, permitting these prices to rise above as well as drop below the presently guaranteed producer price.

The revival in economic activity in 1989 did not greatly improve of the fiscal situation, although the overall fiscal deficit (on a commitment basis) fell from 16 percent of GDP in 1987 to about 12 percent of GDP in 1989. This improvement was largely due to lower investment expenditure and to lower growth in current expenditure. Resource mobilization continues to be difficult and constrains fiscal policy. Revenue weakened from 12.2 percent of GDP in 1988 to 11.1 percent of GDP. Past efforts to raise revenue have led to continued increases in tax rates, which in turn have stimulated tax evasion, most noticeable in the case of imports and diamond exports. The revenue mobilization efforts continue to be plagued by weaknesses in the administration and weak economic growth in the modern sector.

Reform Program and Development Prospects

The government has decided to continue its adjustment program. The main objective now is to realize sustained real per capita income growth while enhancing the participation of all segments of the population in the development process. The program will carry forward the reform measures initiated since 1986 and support a deepening of the adjustment effort in macroeconomic management, civil service efficiency improvement, public enterprise reform, policy reforms in the key agricultural and transport sectors, and measures to promote expanded private sector activity. Based on the experience gained under earlier programs, special attention will be paid to strengthening institutional capacity to implement necessary reform measures, to building up the government's human resource base, and to alleviating the social cost of adjustment. Management and coordination of the program will also be strengthened.

The growth performance experienced during 1989 is expected to be maintained over 1990-93 permitting a modest increase in private per capita consumption. Savings, which were negative as late as 1988, would become significantly positive.

During 1990-93, the food sector, which benefited greatly from the liberalization of prices and trade, is expected to grow more rapidly than population due to increased trade with urban areas; this sector should be the prime beneficiary of the introduction of multi-crop extension services and the new emphasis given to maintenance of rural roads. The coffee and cotton sectors will continue to benefit from the ongoing rehabilitation of extension services, and establishment of an adaptive research project. Despite an appreciation of the dollar against the CFAF in 1989, continued support will be needed over the next two to three years to sustain this sector during the period that structural reform takes effect. Such support is likely to continue at least over the next three to four years if world market prices remain depressed (current price forecasts see a gradual but slow recovery from 1990 lows), producer prices will remain at their current low levels, which could in the medium-term depress the sector. In light of the prevailing low yield levels in coffee and cotton production, further efforts to raise productivity are envisaged. The ongoing efforts to diversify exports should also sustain growth in this sector. Slightly higher growth is expected for the secondary sector, a sign that the real exchange rate depreciation of 1987-89 is bearing fruit. The ongoing reforms of public enterprises will strengthen their performance. The positive response of the private sector, experienced in 1989, is expected to continue; the informal sector is expected to be a major source of growth. The gradual restoration of a better performing financial sector should also underpin the growth of the private sector. The low inflation rate expected for the CAR economy should also help the overall competitiveness of the economy. Gross investment is expected to increase from 9.3 percent of GDP in 1989 to 13 percent of GDP in 1993; both private and public sector investments are expected to rise.

The fiscal deficit (on a commitment basis) is projected to fall, from 11.8 percent of GDP in 1989; and budgetary savings are expected to improve, from minus two percent in 1989. Revenue is to increase, relative to GDP, as a result of improved resource mobilization, while growth in recurrent expenditure is to be restrained, largely because of slow growth in the nominal wage bill and termination of the severance payments related to the voluntary departure scheme.

The adjustment program is taking place under unusually difficult external conditions and substantial external financing will be required for program implementation. Solutions to the CAR's structural problems can be found only gradually. Based on present trends, somewhat more than half of the financing requirements are expected to be covered by grants, while borrowing on concessional terms for investment purposes may cover about one-fifth. Quick-disbursing loans and debt rescheduling should finance the balance.

Deficiencies in economic management and a fragile fiscal situation, while pursuing the structural adjustment program necessary to eliminate major growth constraints, have resulted in serious social problems. A key issue is the inadequate delivery of health and educational services, exaxcerbated by distorted and misdirected budgetary policies. Special efforts are being made to protect the funding of human resource development as public expenditure management is reformed. While reforms in the education sector are under way, the strategy for the health sector is still under preparation. Employment in the civil service and public enterprises has fallen and will remain stagnant. The population of the rural sector has benefited from the removal of trade and price controls, and until recently from the increase in coffee prices. However,the latter were reduced for the 1989-90 season; but as most coffee production is done in conjunction with subsistence farming, and as the guaranteed producer prices of earlier years were not always paid, the impact of this price reduction is probably not as great as would initially appear.

CENTRAL AFRICAN REPUBLIC

Mid-1988 Population (mils.)	3
1988 Per Capita GNP in US$:	380

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates (% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.6	1.7	1.2	1.8	3.7
Net Indirect Taxes	5.7	7.9	5.9	5.9	5.3	5.2	..	..	..	-7.9	1.5
Agriculture	43.6	36.1	37.6	39.5	40.2	40.0	2.1	1.8	2.7	3.8	3.1
Industry	14.6	24.7	18.9	13.0	13.1	14.5	7.1	3.2	2.1	2.6	14.4
(of which Manufacturing)	3.8	7.2	6.8	7.4	7.8	9.4	..	3.8	0.7	7.1	24.9
Services	36.0	31.3	37.6	41.6	41.3	40.3	1.6	1.9	0.3	1.0	1.1
Resource Balance	-10.6	-14.2	-16.6	-14.5	-11.7	-10.6	..	..	..	..	..
Exports of GNFS	27.1	25.2	26.1	18.3	17.6	19.2	0.8	2.7	-4.7	-8.7	8.7
Imports of GNFS	37.7	39.4	42.8	32.8	29.3	29.8	1.7	6.2	-2.2	-13.0	0.3
Total Expenditures	110.6	114.2	116.6	114.5	111.7	110.6	2.6	2.9	1.6	-1.9	2.9
Total Consumption	89.2	92.1	109.6	102.7	102.7	101.3	2.7	4.4	1.0	2.1	1.9
Private Consumption	66.9	71.5	94.5	85.1	86.9	86.7	3.2	6.3	2.0	3.2	2.6
General Government	22.2	20.7	15.1	17.6	15.8	14.6	1.7	-0.9	-2.8	-3.4	-1.8
Gross Domestic Investment	21.4	22.1	7.0	11.8	8.9	9.3	2.3	-10.6	8.8	-25.8	4.0
Fixed Investment	..	..	6.9	11.7	8.8	9.1	..	..	9.9	-26.1	2.9
Changes in Stocks	..	..	0.1	0.1	0.1	0.2	..	..	..	..	..
Gross Domestic Saving	10.8	7.9	-9.6	-2.7	-2.7	-1.3	..	..	..	..	..
Net Factor Income	-0.3	-0.2	0.3	-1.8	-1.9	-1.5	..	..	..	..	..
Net Current Transfers (priv)	0.0	-2.0	-2.1	-2.2	-2.4	-2.2	..	..	..	..	..
Gross National Saving	10.6	5.7	-11.4	-6.7	-7.1	-5.1	..	..	..	..	..
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	226	272	298	323	328	340	2.6	1.7	1.5	1.8	3.7
Capacity to Import	51	58	80	59	55	60	0.9	5.9	-3.7	-6.3	7.6
Terms of Trade Adjustment	11	7	-2	0	1	1	..	..	..	..	..
Gross Domestic Income	238	279	296	323	330	341	2.6	2.4	1.8	2.2	3.5
Gross National Product	226	271	299	317	322	335	2.8	1.7	1.2	1.8	4.0
Gross National Income	237	278	297	317	324	336	2.8	2.5	1.5	2.2	3.8

C. Price Indices	*1980*	*1985*	*1986* (1987 = 100)	*1987*	*1988*	*1989*	*1965-73* Inflation Rates (% p.a.)	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	59.3	95.5	99.3	100.0	..	..	2.7	11.2	7.7	..	..
Implicit GDP Deflator	56.5	95.7	103.7	100.0	101.5	103.6	3.3	14.8	7.5	1.5	2.1
Implicit Expenditures Defl.	56.6	98.4	101.8	100.0	102.4	105.7	3.3	13.6	7.3	2.4	3.2

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	1.5	2.2	2.5
Labor Force	..	..	..
Gross Natl. Income p.c.	1.2	0.2	1.1
Private Consumption p.c.	1.6	3.9	-0.6
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.6	3.7	-1.5
Marginal Savings Rates:			
Gross National Saving	-19.3	-184.9	40.0
Gross Domestic Saving	-7.2	-197.7	56.3
ICOR (period averages):	..	..	10.3

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	88.2	79.7	72.4	..
Industry	3.0	4.7	6.4	..
Services	8.8	15.5	21.2	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index						Value at Current Prices (millions US$)					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
X.MAN.DIAMONDS	..	..	86.0	100.0	86.7	107.9	48	34	36	49	55	72
X.BEV.COFFEE	..	..	92.0	100.0	128.3	177.6	38	41	31	21	25	28
X.TIM	..	..	142.0	100.0	81.0	103.0	34	20	23	20	16	20
X.OAGRI.COTTON	..	..	154.0	100.0	73.1	120.6	18	15	13	9	8	13
Tobacco	..	..	100.0	100.0	63.6	25.8	..	..	6	4	2	1
Residual	..	..	116.0	100.0	103.5	76.6	17	22	21	26	28	20
Total Exports FOB	..	..	116.0	100.0	94.3	110.6	155	132	129	129	135	155
F. Merchandise Imports												
Food	..	..	91.2	100.0	85.8	84.3	11	22	26	28	25	25
Fuel and energy	..	..	154.6	100.0	137.4	151.0	23	23	22	13	18	20
Other Consumer Goods	..	..	91.2	100.0	84.4	82.9	113	51	60	63	57	56
Other Intermed. Goods	..	..	91.2	100.0	82.9	81.5	31	46	52	57	50	49
Capital goods	..	..	91.2	100.0	80.5	79.2	18	80	91	98	85	83
Total Imports CIF	..	..	107.3	100.0	85.5	84.8	196	222	250	259	236	234

G. Merchandise Terms of Trade	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	..	..	103.0	100.0	110.7	108.7
Merch. Imports Price Index	..	..	92.5	100.0	106.6	106.3
Merch. Terms of Trade	..	..	111.4	100.0	103.9	102.2

H. Balance of Payments	US$ millions (at current prices):					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*
Exports of Goods & NFS	201	178	185	197	197	211
Merchandise (FOB)	147	131	130	129	135	155
Non-Factor Services	54	47	56	68	62	56
Imports of Goods & NFS	327	276	323	352	327	327
Merchandise (CIF)	185	168	250	259	236	234
Non-Factor Services	142	108	73	93	91	94
Resource Balance	-126	-98	-138	-155	-130	-116
Net Factor Income	3	-7	-12	-19	-21	-17
(interest per DRS)	0	7	9	8	7	8
Net Current Transfers (priv.)	-17	-12	-13	-24	-27	-25
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-141	-117	-163	-198	-179	-158
Net Official Transfers	97	69	98	125	162	150
Curr. A/C Bal. after Off. Transf.	-43	-49	-66	-73	-17	-8
Long-Term Capital Inflow	47	55	80	116	62	41
Direct Investment	5	2	0	0	0	0
Net LT Loans (DRS data)	30	43	71	107	39	34
Other LT Inflow (Net)	11	10	9	8	23	7
Total Other Items (net)	7	-27	-3	-35	-58	-23
Net Short Term Capital	19	-19	3	-7	-27	-5
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-12	-8	-6	-28	-32	-18
Changes in Net Reserves	-11	20	-11	-7	13	-11
Net Credit from the IMF	-3	5	0	6	5	-11
Other Reserves Changes	-7	15	-10	-13	8	0
As Share of GDP:						
Resource Balance	-15.9	-13.9	-13.9	-14.5	-11.7	-10.6
Interest Payments	0.1	0.9	0.9	0.7	0.6	0.7
Current Account Balance	-17.6	-16.7	-16.5	-18.5	-16.0	-14.4
Memorandum Items:						
Reserves excl. Gold (mil. US$)	55	50	65	97	108	..
Reserves incl. Gold (mil. US$)	62	53	70	102	113	0
Official X-Rate (LCUs/US$)	211.28	449.26	346.31	300.54	297.85	320.50
Index Real Eff. X-R Base 1980	100.00	93.03	99.04	99.14	96.79	93.10
GDP (millions of current US$)	797	704	990	1,073	1,118	1,100

I. Budget (specify level)	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Current Receipts	..	..	11.7	11.8	12.2	11.1	..	..	-4.9	6.5	-4.0
Current Expenditures	..	..	11.7	13.1	13.1	12.9	..	..	5.1	3.1	4.5
Current Budget Balance	..	..	0.0	-1.3	-0.9	-1.9	..	..	..	..	..
Capital Receipts	..	..	0.5	1.5	2.9	1.2	..	..	..	..	..
Capital Expenditures	..	..	12.9	13.2	9.0	8.7	..	..	-4.4	-29.4	2.3
Adjustments	..	..	0.0	1.0	-0.1	0.1	..	..	..	..	..
Overall Deficit	..	..	-13.8	-15.3	-13.1	-11.8	..	..	4.5	-11.7	-5.1
Official Grants	..	..	4.7	5.2	8.2	8.0	..	..	4.0	60.5	4.1
External Borrowing (net)	..	..	12.6	15.2	13.7	11.8	..	..	13.8	-7.1	-9.3
Domestic Non-Bank Financing	..	..	0.1	0.0	0.2	-0.3	..	..	..	..	..
Domestic Bank Financing	..	..	1.1	0.1	-0.8	0.3	..	..	..	..	..

J.External Capital Flows, Debt and Debt Burden Ratios 1/	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	30	43	72	85	79	56	147	291	398	545	585	636
Official Creditors	25	44	72	85	79	57	99	266	373	520	561	612
Multilateral	14	24	43	45	51	38	53	126	182	253	291	329
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	10	11	19	29	39	22	29	63	86	126	160	180
Bilateral	12	19	29	41	28	18	45	139	191	266	270	282
Private Creditors	5	-1	0	-1	1	-1	48	25	25	26	24	25
Suppliers	5	-1	1	-1	1	-1	43	23	23	24	22	23
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	30	43	72	85	79	56	147	291	398	545	585	636
IMF Credit	9	0	-2	3	1	-13	24	39	42	52	50	35
Net Short-Term Capital	19	-19	-11	-2	-27	-5	25	19	29	31	39	34
Total incl. IMF & Net ST	59	23	59	86	53	38	195	349	469	628	673	705

Bank and IDA Ratios	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	19.65	21.55	21.67	23.09	27.43	28.21
3. IBRD+IDA as % of Total	19.65	21.55	21.67	23.09	27.43	28.21
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	21.43	5.22	4.55	5.68	11.30	12.82
3. IBRD+IDA as % of Total	21.43	5.22	4.55	5.68	11.30	12.82
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	71.38	157.67	210.36	271.64	289.45	298.74
2. IMF Credit/Exports	11.44	21.14	22.20	25.92	24.74	16.44
3. Short-Term Debt/Exports	12.03	10.08	15.33	15.45	19.30	15.97
4. LT+IMF+ST DOD/Exports	94.85	188.89	247.89	313.00	333.49	331.15
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	18.39	41.33	40.20	50.79	52.31	57.83
2. IMF Credit/GDP	2.95	5.54	4.24	4.85	4.47	3.18
3. Short-Term Debt/GDP	3.10	2.64	2.93	2.89	3.49	3.09
4. LT+IMF+ST DOD/GDP	24.44	49.52	47.37	58.52	60.27	64.10
Debt Service /Exports						
1. Public & Guaranteed LT	0.68	6.23	8.20	8.90	5.69	5.49
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	0.68	6.23	8.20	8.90	5.69	5.49
4. IMF Repurchases+Serv. Chgs.	3.16	7.32	6.02	4.30	6.24	7.18
5. Interest only on ST Debt	1.02	0.65	0.80	0.91	0.94	0.99
6. Total (LT+IMF+ST Int.)	4.87	14.20	15.02	16.39	12.87	13.66

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Chad

With a per capita income estimated at US$180 for 1988, Chad is one of the world's poorest countries. Independence, in 1960, found the new nation poorly prepared, even in comparison to other least developed countries, in terms of infrastructure, the level of education and health, and management capacity. Moreover, independence was followed by a succession of internal and external conflicts. The diversity of Chad's population, composed of more than 200 ethnic groups, has resulted in social conflict and difficulties in creating a sense of national unity. A civil war erupted in 1979. Although stability has been slowly restored since 1982 when President Hissein Habre took power, armed conflicts continue to flare up. Since a coup attempt in April 1989, renewed outbreaks of military fighting along the Sudanese border have been reported, most recently in February-March 1990. In December 1989, a new Constitution was adopted which provides for a one-party state and an elected National Assembly; elections are to be held in July 1990. The country remains politically fragile, despite President Habre's strong leadership and commitment to political reconciliation and the development of his country.

The economy is based on agriculture (including livestock and fishing), which generates 42 percent of GDP and provides a livelihood for about 85 percent of the population. The principal economic activities are subsistence production of food crops by smallholders and livestock products by nomadic and semi-nomadic herders. Domestic production and income are heavily dependent upon cotton. In 1984, prior to a crisis in the cotton sector, it accounted for 80 percent of merchandise export earnings, 20 percent of government tax revenues, 66 percent of industrial turnover, and provided a cash income to two-fifths of the population. The industrial sector is small, contributing about 18 percent to domestic production. In addition to cotton processing, its larger-scale enterprises produce mainly consumer goods for the domestic market. The service sector makes up roughly 40 percent of GDP, including commerce, transport, communication, and government services.

Chad's economy over the past fifteen years has been unstable due to three principal factors: political conflict, world market conditions for cotton, and climate. The disruption of the war period resulted in a more than 20 percent drop in real GDP between 1978 and 1982. Subsequently, Chad's economic recovery was hindered by the severe 1984 drought and the 50 percent decline of the world market price of cotton during 1984-86. Overall, by 1986, real GDP regained its 1977 level, but the population had grown by 1 million to 5.1 million. Population in 1988 is estimated at 5.4 million, growing at 2 1/2 percent a year.

Chad's government and people have made a diligent effort in rebuilding the economy. Compared to other Sahelian countries, Chad has good agricultural potential: cultivable land is still available and degradation of the environment is not yet a serious problem. Livestock and cotton have good prospects, and in good rainfall years production of food crops is sufficient to meet aggregate supply requirements. In addition, the exploitation of Chad's petroleum resources should substantially lower imports and domestic energy costs starting in 1995. Compared to other Sahelian countries, the economy is relatively unregulated.

Recent Economic Developments

After a relatively poor food crop harvest, resulting in a 3 percent decline in real GDP in 1987, growth resumed in 1988 as abundant rainfall boosted foodcrop and cotton production, resulting in a 18 percent increase in real GDP. The strong economic performance continued in 1989; although real GDP growth was only about 1 percent, this reflected a sharp upward revision of the 1988 GDP figure.[1] Wide swings in inflation were also experienced during 1986-89 due mainly to the

1. GDP for 1988 was revised to CFAF 313.6 billion, or some 15 percent higher than the estimate included in the previous edition. All ratios and growth rates in the text are based on the revised GDP for 1988 and 1989.

impact of fluctuating food crop production; on average, the price level, as measured by the GDP deflator, increased by less than 3 percent per year over the four years.

During 1986-89, Chad's fiscal position remained difficult. The fiscal deficit worsened through 1987, and, after some improvement in 1988, again in 1989 mainly due to military outlays. Fiscal revenues, already below the average for comparable low-income countries, plummeted in 1986 as a result of the suspension of the cotton export tax. This development was reversed with a major tax reform which improved tax administration and introduced higher tax rates. In conjunction with economic recovery, fiscal revenues increased by some 40 percent from 1986 to 1988, and by another 16 percent in 1989. This overall buoyancy reflected primarily collection of a new petroleum tax in 1988, and improved tax administration in 1989. However, current expenditures grew somewhat more than revenues during this period. The decision to restore government salaries to their pre-war levels led to a 23 percent increase in current expenditures during 1986-88. In 1989, an additional rise in the wage bill together with a considerable jump in military outlays, resulted in a 36 percent increase in current expenditures. As a result, the current fiscal deficit — after having been reduced to 2.3 percent of GDP in 1988 — increased to 4.6 percent in 1989. In the period 1986-89, public investment expenditures, financed almost entirely through external assistance, increased by some 35 percent; in 1989, they amounted to 21 percent of GDP.[2] Domestic arrears were reduced in 1988 and 1989 while external arrears continued to accumulate.

Following the cotton crisis, Chad's current account situation, excluding official transfers, deteriorated sharply. Reflecting increased imports for the investment program, the current account deficit (excluding official transfers) reached a peak in 1986 and 1987 when it amounted to about 33 percent of GDP. With the recovery of cotton export revenues, the deficit was reduced to 24 percent of GDP in 1988. However, a significant increase in imports raised the deficit to 26 percent in 1989. The deficits have been financed through capital grants and, lately, through increased concessional lending. In 1989, Chad became eligible for the Special Program of Assistance for debt-distressed countries in Sub-Saharan Africa which facilitated Chad's access to additional non-project funding on concessional terms.

Although relatively small, Chad's external debt has been increasing significantly and amounted to about 36 percent of GDP at end-1989. Ninety percent of it is contracted by the public sector and on concessional terms. Due to low public sector resource mobilization, however, Chad has not been able to service all its debt, and arrears were accumulated by the end of 1988. For the first time, Chad went to the Paris Club in 1989. As a result, US$42 million of arrears were rescheduled, while an additional US$9 million was cancelled by France under Toronto terms. An additional US$37 million of late interest was also rescheduled in 1989. At end-1989, remaining arrears are owed mainly to creditors with whom debt alleviation discussions are underway.

Adjustment Program

Since June 1987, the government is implementing a medium-term structural adjustment program supported by the IMF and the World Bank.

The overall objective of Chad's adjustment program, is to alleviate the economy's structural constraints on growth while containing external and internal imbalances. The most important structural problems and adjustment issues are: (i) an undiversified production base which makes the economy overly dependent on the cotton sector, (ii) inefficiencies in public sector resource mobilization and utilization, and (iii) an inefficient public enterprise sector. The main measures contained in the adjustment program aim at improved public sector resource management, the rehabilitation of the cotton sector, reforms to increase the efficiency of the public enterprise sector, and the restoration of an appropriate structure of incentives. In addition, the government adopted reform programs in the livestock and transport sectors which include measures to abolish monopolies, liberalize prices, and recover costs.

The government's macroeconomic targets for 1990-92 are: (i) real GDP growth of about 3 percent per annum, (ii) containing the annual inflation rate to some 3 percent, and (iii) reducing the external current account deficit, excluding official transfers, from an annual average of 27 percent of GDP during 1987-89 to about 23 percent by 1992.

A key element for attaining these targets is improved public sector resource management. Low tax yields and weak tax administration have confined the revenue base to one of the lowest in Africa (9 percent of GDP in 1989). This has limited the level of current expenditures and the government has been unable to undertake essential administrative functions and to

2. All citations of "percentage GDP" in this paragraph are based on a three-year moving average. This method was adopted because of large annual fluctuations in GDP due to climate-induced variations in food crop production. This approach is different from that used in the attached table of Economic Indicators.

deliver basic services in sectors crucial to economic growth. Furthermore, use of the available financial resources is hampered by cumbersome administrative procedures. Increasing efficiency in the mobilization and use of public sector resources is therefore a central component of the Financial Rehabilitation Program supported by IDA's adjustment credit. The reform program includes: (i) reforms of the tax system; (ii) initial steps to restructure current expenditures; (iii) a rationalization of the public investment program; and (iv) the formulation of a public sector financing plan.

The Financial Rehabilitation Program also includes a comprehensive plan for restructuring the cotton sector and restoring its financial viability. Building on the achievements of the Emergency Cotton Program which reduced costs and losses within the existing incentives system and institutional framework, the restructuring plan, covering 1988/89-1990/91, has introduced fundamental reforms in order to increase efficiency and reduce the financial risks of the cotton industry. The plan has four components: (i) a program to increase the efficiency of the cotton parastatal, (ii) a cotton development program at the farm level, (iii) a reform of the producer pricing system, and (iv) resolution of COTONTCHAD's arrears problem. Implementation of the plan is proceeding very well, and progress has been made in public sector resource management.

Chad is participating in the Social Dimensions of Adjustment (SDA) program which is financed by a number of donors and executed by the World Bank. In the case of Chad, war, drought, and the cotton crisis had a severe negative impact on the income and living conditions of the population. The adjustment program includes measures to improve provision of development-oriented services through higher current expenditures of the government. The Social Development Action Project provides additional funding for improving social services. Through its studies component, it will provide a basis for analyzing the potential impact of future adjustment measures and for designing compensatory programs if they prove necessary.

Medium-Term Prospects

The overall macroeconomic objective for 1990-92 is to achieve a GDP growth rate that would allow a modest rise in per capita income, initially from an increase in the production of food crops, cotton, and livestock. In the early 1990s, growth is expected to accelerate further due to the recovery in the cotton sector and increased investment in productive sectors. In the longer term, domestic petroleum production should substantially reduce imports. Lower imports, combined with higher export receipts due to projected favorable levels of world cotton prices, should keep external payment imbalances at sustainable levels. Nevertheless, given the dependence of the Chadian economy on the cotton sector, and the considerable development and rehabilitation needs, Chad will continue to require a substantial amount of external financial assistance over the medium term. The external current account deficit during the period 1990-92 will be financed by official transfers and highly concessional external loans.

CHAD

Mid-1988 Population (mils.)	5											
1988 Per Capita GNP in US$:	180											

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	0.5	-1.5	6.8	17.6	0.9
Net Indirect Taxes	6.7	5.7	0.3	5.1	5.4	5.5	..	..	..	..	..
Agriculture	41.8	42.6	53.4	36.9	41.1	35.8	-0.7	0.5	2.7	31.0	-12.0
Industry	14.8	19.5	11.8	18.6	17.3	20.0	1.6	-6.0	10.9	9.5	16.5
(of which Manufacturing)	11.8	18.0	..	16.5	15.5	17.5	1.1	-5.5	9.7	10.5	14.4
Services	43.4	37.9	34.8	44.6	41.7	44.2	1.0	-2.2	9.8	9.9	7.1
Resource Balance	-6.1	-11.0	-16.9	-30.0	-21.2	-22.4	..	..	..	..	..
Exports of GNFS	19.2	22.4	24.1	22.1	21.2	22.1	3.5	1.5	7.3	12.5	5.3
Imports of GNFS	25.3	33.4	41.0	52.2	42.4	44.5	4.0	-2.8	12.4	-4.4	5.9
Total Expenditures	106.1	111.0	116.9	130.0	121.2	122.4	1.1	-2.4	8.6	9.6	1.9
Total Consumption	93.7	114.8	116.5	117.7	113.4	113.4	2.0	-1.6	7.2	13.3	0.9
Private Consumption	74.2	84.0	..	95.1	95.5	92.2	0.8	-0.4	5.3	18.1	-2.6
General Government	19.5	30.8	..	22.7	17.9	21.3	6.0	-0.6	26.1	-7.1	19.8
Gross Domestic Investment	12.4	-3.8	..	12.3	7.8	9.0	..	..	29.7	-25.1	15.6
Fixed Investment	..	..	..	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	6.3	-14.8	-16.9	-17.7	-13.4	-13.4	..	..	..	..	..
Net Factor Income	-1.8	0.3	-0.6	-1.3	-1.3	-1.3	..	..	..	..	..
Net Current Transfers	0.0	-2.0	-0.6	-1.2	-1.6	-2.1	..	..	..	..	..
Gross National Saving	4.5	-16.6	-18.1	-20.2	-16.4	-16.8	..	..	..	..	..
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	200	195	172	244	287	290	0.5	-1.5	6.8	17.6	0.9
Capacity to Import	51	63	42	54	61	64	2.7	-5.4	6.8	12.5	5.3
Terms of Trade Adjustment	14	16	0	0	0	0	..	..	..	..	..
Gross Domestic Income	214	211	172	244	287	290	0.5	-3.1	6.7	17.6	0.9
Gross National Product	196	195	171	241	284	286	0.9	-1.6	6.6	17.6	0.9
Gross National Income	210	212	171	241	284	286	0.8	-3.2	6.5	17.6	0.9

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	89.2	124.4	103.0	100.0	109.2	111.7	4.5	8.3	1.8	9.2	2.3
Implicit Expenditures Defl.	89.1	124.4	103.0	100.0	109.2	111.7	4.3	10.6	1.9	9.2	2.3

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	1.9	2.1	2.4	
Labor Force	..	..	..	
Gross Natl. Income p.c.	-1.0	-5.2	4.1	
Private Consumption p.c.	-1.1	-2.4	2.8	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	7.7	1.9	1.8	
Marginal Savings Rates:				
Gross National Saving	-800.7	-10.6	-14.2	
Gross Domestic Saving	-3993.4	-7.0	-8.1	
ICOR (period averages):	..	..	..	
Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	92.2	88.0	83.3	..
Industry	2.8	3.7	4.6	..
Services	5.0	8.3	12.1	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume I Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.OAGRI.COTTON	..	..	..	..	..	..	..	44	42	41	68	69
X.FOOD.MEAT	..	..	..	..	..	..	..	26	35	42	39	41
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	5	5	2	3	3
Residual	..	..	..	..	..	..	..	13	17	24	34	33
Total Exports FOB	..	..	..	..	..	..	..	88	99	109	144	146
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	53	18	18	18	8
Fuel and energy	..	..	..	..	..	..	..	19	19	38	..	..
Other Consumer Goods	..	..	..	..	..	..	..	12	48	122	98	94
Other Intermed. Goods	..	..	..	..	..	..	..	46	81	98	..	..
Capital goods	..	..	..	..	..	..	..	54	42	90	..	..
Total Imports CIF	..	..	..	..	..	..	..	185	207	366	295	313

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	116.8	118.5	101.6	100.0	108.3	107.9
Merch. Imports Price Index	114.5	131.4	105.8	100.0	104.1	111.9
Merch. Terms of Trade	101.9	90.1	96.0	100.0	104.0	96.4

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	71	123	143	180	223	224
Merchandise (FOB)	71	88	98	109	144	146
Non-Factor Services	0	35	44	70	79	78
Imports of Goods & NFS	79	323	377	424	446	452
Merchandise (FOB)	55	166	211	226	228	235
Non-Factor Services	24	157	165	198	218	216
Resource Balance	-8	-200	-234	-244	-224	-227
Net Factor Income	-4	-5	-9	-10	-13	-13
(interest per DRS)	0	2	2	3	4	4
Net Current Transfers	-4	7	-5	-10	-17	-21
(workers' remittances)	..	0	1	1	..	..
Curr. A/C Bal. before Off. Transf.	-16	-199	-248	-264	-254	-262
Net Official Transfers	28	134	189	239	254	237
Curr. A/C Bal. after Off. Transf.	12	-65	-59	-26	0	-24
Long-Term Capital Inflow	-4	68	49	56	51	80
Direct Investment	0	53	28	0	..	..
Net LT Loans (DRS data)	3	2	30	42	57	84
Other LT Inflow (Net)	-6	12	-8	14	-6	-3
Total Other Items (net)	-13	-24	-5	-14	-31	-21
Net Short Term Capital	8	3	-14	-30	2	4
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-21	-27	9	17	-33	-25
Changes in Net Reserves	5	22	15	-17	-19	-35
Net Credit from the IMF	-3	4	0	10	-1	4
Other Reserves Changes	8	18	15	-27	-18	-39
As Share of GDP:						
Resource Balance	-1.1	-27.4	-31.1	-30.0	-21.2	-22.4
Interest Payments	0.0	0.3	0.2	0.4	0.3	0.4
Current Account Balance	-2.2	-27.3	-33.0	-32.5	-24.1	-25.8
Memorandum Items:						
Reserves excl. Gold (mil. US$)	5	33	16	52	61	..
Reserves incl. Gold (mil. US$)	12	37	20	57	66	0
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	0.00	0.00	0.00	0.00	0.00	0.00
GDP (millions of current US$)	727	730	752	813	1,053	1,015

Budget	1980	1985	1986	1987	1988	1989	1980-84	1986	1987	1988	1989
	Share of GDP (%)						*Growth Rates*				
Total revenue	..	6.5	6.8	8.0	7.9	8.9	..	-16.8	9.7	27.2	16.3
Tax revenue	..	5.3	5.9	7.3	7.6	8.3	..	-11.5	17.1	33.3	12.9
Nontax revenue	..	1.3	1.0	0.7	0.3	0.6	..	-39.3	-35.2	-39.6	99.5
Total expend. and net lending	..	15.4	27.5	33.7	26.8	32.4	..	41.5	15.2	2.1	24.9
Current expenditure	..	7.6	9.6	11.3	9.9	13.0	..	0.2	10.8	11.8	36.4
Salaries, Goods & services	..	4.0	5.2	6.2	5.2	7.3	..	5.1	11.4	7.7	44.8
Scheduled interest	..	0.3	0.4	0.4	0.3	0.3	..	15.4	-17.1	2.4	-2.2
Transfers	..	0.6	0.5	0.8	0.4	1.0	..	-30.9	55.9	-41.7	173.5
Other current expenditures 2/	..	2.8	3.5	3.9	4.0	4.4	..	-1.1	6.5	30.6	14.9
Investment expenditures	..	7.8	17.9	22.4	16.9	19.4	..	81.9	17.5	-2.7	18.3
Surp/Deft(-), commitm basis	..	-8.9	-20.6	-25.7	-18.9	-23.5	..	84.3	16.9	-5.6	28.5

J. External Capital Flows, Debt and Debt Burden Ratios	1980	1985	1986	1987	1988	1989	1980	1985	1986	1987	1988	1989
	Net Disbursements (US$ millions)						*Debt Outstanding & Disbursed (US$ millions)*					
Public & Publicly Guar. LT	3	2	30	42	57	84	194	151	193	260	300	383
Official Creditors	3	8	30	39	57	84	140	122	159	217	261	375
Multilateral	3	6	18	19	39	55	75	90	112	140	174	245
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	0	3	9	13	37	34	36	40	48	61	98	130
Bilateral	-1	2	12	20	18	29	66	32	48	77	87	131
Private Creditors	0	-6	0	3	0	0	54	30	34	43	39	8
Suppliers	0	-4	0	3	0	0	35	16	19	26	23	7
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	3	2	30	42	57	84	194	151	193	260	300	383
IMF Credit	-3	2	-2	7	-2	7	14	12	11	20	17	24
Net Short-Term Capital	8	3	-14	-30	2	4	11	20	31	38	29	32
Total incl. IMF & Net ST	8	8	14	18	56	95	218	183	235	318	346	439

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	18.62	26.35	24.86	23.60	32.58	33.89
3. IBRD+IDA as % of Total	18.62	26.35	24.86	23.60	32.58	33.89
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	21.59	30.30	20.41	22.41	22.58
3. IBRD+IDA as % of Total	0.00	21.59	30.30	20.41	22.41	22.58
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	120.51	130.94	141.36	133.21	170.54
2. IMF Credit/Exports	..	9.58	7.39	10.76	7.34	10.50
3. Short-Term Debt/Exports	..	15.96	21.02	20.81	13.07	14.33
4. LT+IMF+ST DOD/Exports	..	146.04	159.36	172.93	153.61	195.37
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	26.67	20.74	25.69	32.02	28.46	37.76
2. IMF Credit/GDP	1.90	1.64	1.45	2.44	1.57	2.32
3. Short-Term Debt/GDP	1.46	2.74	4.12	4.71	2.79	3.17
4. LT+IMF+ST DOD/GDP	30.02	25.13	31.27	39.17	32.82	43.26
Debt Service /Exports						
1. Public & Guaranteed LT	..	1.68	2.24	2.66	2.58	2.76
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	..	1.68	2.24	2.66	2.58	2.76
4. IMF Repurchases+Serv. Chgs.	..	3.99	1.97	1.09	1.29	2.27
5. Interest only on ST Debt	..					
6. Total (LT+IMF+ST Int.)	..	5.67	4.20	3.75	3.87	9.92

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Chile

In March 1990 the first democratically elected government in 16 years assumed power. The new government's economic goal is to achieve sustained growth with equity, eschewing radical departures from the currently prevailing broad economic policy framework which contributed to the economic recovery of the last five years. While expenditure in social sectors will increase gradually, the government has pledged that it will not be done at the expense of higher inflation. Furthermore, the government has indicated that the private sector will remain the primary force in economic growth, and that it will seek the greater integration of Chile into the international economy, emphasizing growth of exports, enhanced international investment, and renewed voluntary access to international capital markets.

Crisis, Stabilization, and Structural Reforms

The severe recession of 1982-83 erased a decade of economic growth and reduced per capita consumption to the level prevailing in 1960. The factors contributing to this recession included a combination of domestic imbalances that developed during 1979-81, and the deterioration of Chile's external conditions. Domestic imbalances led to massive inflows of unguaranteed long-term credit, which financed an unsustainable expansion of private consumption and investment in 1980 and early 1981. As a result, external debt rose from US$6.7 billion at end-1978 to US$17 billion by end-1982. On the external front, Chile confronted steep oil price increases followed by falling copper prices, surging real interest rates and a sub sequent deep international recession.

The above developments caused the economy to slump by the end of 1981. Chile devalued its currency in June 1982, accelerating a financial crisis for major banks and bankruptcy of many enterprises. A sharp curtailment of capital flows to Chile in early 1982, which was further aggravated later that year by the broader international debt crisis, led the economy to the recession of 1982-83. In 1982, alone, real GDP dropped over 14 percent, and open unemployment rose to over 33 percent.

The government's initial response to the crisis was the adoption of emergency measures, including the rescheduling and guarantee of private debts, the creation of large public employment programs, the adoption of severely austere fiscal policies, and real wage compression in the public and private sectors.

However, by 1984, it became increasingly apparent that unfavorable external conditions—low copper prices, commercial bank retrenchment, and high real interest rates—would not pass quickly. The government began to supplement emergency measures with a more comprehensive longer-term program. The structural adjustment program of 1985 sought recovery of economic activity and employment, while gradually reducing the external debt burden. This program attempted to achieve these objectives through the implementation of policies directed at resolving three priority structural problems: excessive concentration of exports, low levels of savings and investment, and the precarious situation of the financial system.

The Resumption of Growth

Even though unfavorable terms of trade and high real international interest rates persisted, the successful implementation of the adjustment program led to the expansion of the economy in 1986 and 1987, with GDP growing by 5.7 percent in both years. By 1987, real GDP reached the highest level since 1981. During 1988, the economy accelerated further, growing by 7.4 percent, benefiting from the substantial increase in international copper prices. Thus, in the five year period between 1984 and 1988, the Chilean economy, coming out of a deep recession, averaged a growth rate of 5.5 percent. Over the same period, inflation was reduced from 23 percent to 13 percent. Unemployment declined sharply by the end of 1988 to 6.6 percent, contributing in that year to a real wage increase of 6.4 percent, following a number of years of negative or negligible real wage increases.

Copper prices played a significant role in the expansion of the economy during 1988. With positive expectations about future economic growth, growing capital inflows fueled rising demand for consumption and investment that was accommodated by an expansive monetary policy. Money supply, narrowly defined, accelerated through 1988 reaching its peak in October, when it was growing on a twelve month basis at a rate of 55.7 percent.

The stimulus provided to the economy, contributed to the growth of GDP in 1988 by 7.4 percent, with growth picking up in the third and fourth quarters of the year (8.4 and 8.7 percent, respectively). Private consumption, reflecting the decline in unemployment and the increase in real wages, expanded by a real 9.6 percent. Government consumption, growing at 4.7 percent, kept overall consumption growth to 9 percent. Overall investment, aided significantly by foreign investment, expanded by 8.5 percent. Despite this fast growth, total investment in 1988 still accounted for only 17 percent of the GDP, which is considered low for sustaining an overall economic growth rate of 5 percent.

During 1989, the economy accelerated further, to a growth rate of 10.0 percent. The same factors that played a role in the acceleration of economic activity during 1988, high copper prices, strong noncopper export growth, etc., were at work in 1989, as well. Additionally, in January 1989 the government effectively reduced corporate taxes by changing their collection from an accrued to a distributed profits basis. Following the outcome of the October 1988 plebiscite, economic agents concluded that the forthcoming December 1989 presidential elections would probably not alter significantly the main thrust of ongoing economic policies, creating expectations of positive economic growth prospects. With the growth of the economy, official unemployment rates declined further, to 5 percent of the labor force, and the emergency employment programs were practically eliminated.

The further acceleration in economic activity during 1989 came at a cost. Import growth accelerated to a nominal growth rate of 34.5 percent, causing a 28.9 percent decline in the trade surplus. Nevertheless, international reserves increased by US$0.4 billion. Furthermore, inflation reversed its 1988 downward trend. Consumer prices accelerated from an annual 12.7 percent in December 1988 to 21.4 percent at year-end 1989.

The government, considering the risks of unsustainable economic expansion, initiated during 1989 a policy of gradual monetary tightening that resulted in the increase in lending interest rates by a real 4 percentage points (to 12.2 percent) through the course of 1989. To that effect, monetary growth, decelerated from a 46.6 percent twelve month rate through December 1988, to 25.3 percent through December 1989. This tightening, plus the June reversal of a revaluation policy established in January, which between June and July caused a 7 percent real devaluation of the peso, contributed to a moderate deceleration in economic growth in the third and fourth quarters of 1989, to 10.4 and 7.5 percent, respectively.

The gradual deceleration in economic expansion of 1989 was inadequate to stem the acceleration in inflation and the high level of imports. Consequently, in January 1990, the central bank instituted a high interest rates policy to precipitate the cooling of the economy. The related slow down in monetary expansion cooled the economy. First quarter real GDP grew at an estimated 4.0 percent over the same period in 1989, but remained approximately flat in comparison to the immediately preceding quarter. Sectors most severely affected by the increase in interest rates were residential construction, commerce and traditional agriculture.

Balance of Payments and Debt Management

To alleviate the debt service burden, the adjustment program, which started in 1985, put heavy emphasis on accelerating exports and efficient import substitution. First, the government reduced its uniform tariff on imports from 35 percent to 30 percent on March 1, 1985, to 20 percent on July 1, 1985 and to 15 percent on January 4, 1988. Second, between 1984 and 1988, the government depreciated the peso in real effective terms by 39 percent. Third, it further strengthened export incentives through a series of banking, administrative and fiscal incentives.

To ensure that future upward movement of volatile copper prices would not result in a real appreciation of the peso, a Copper Stabilization Fund was created. The fund ensures that part of CODELCO's copper revenues from higher-than-budgeted copper prices will be sterilized through budget adjustments in a reserve fund. With copper prices rising above the bench mark price of US$0.75 per pound, the fund was activated in the second half of 1987. At the end of 1989, deposits into the Copper Stabilization Fund amounted to US$1.7 billion. However, incremental Copper Stabilization Fund deposits in 1989, amounting to US$1.2 billion, were not fully reflected in the level of net international reserves, which in that year increased by US$0.4 billion.

In 1989, the overheating of the economy contributed to a 34.5 percent growth in imports that far outpaced export expansion, despite the latter's solid

14.6 percent increase. As a result, the trade balance deteriorated by 28.9 percent, raising the current account deficit to the equivalent of 3.6 percent of GDP. Nevertheless, by year-end, net international reserves rose by US$0.4 billion, to US$2.95 billion, reaching the equivalent of 5.4 months of imports.

In 1989, for the third year in a row, Chile's total external debt declined. This reduction was due to reduced borrowings (Chile has not borrow from commercial creditors in the last three years) and increased amortizations of debt, primarily through their debt conversion program. In 1989, debt conversions in the secondary market contributed to US$2.8 billion in debt reductions, nearly duplicating the US$2.9 billion debt conversion performance of 1988. The 1989 debt conversions bring the cumulative reduction of debt in the four years that this program has been in operation, to US$9.0 billion. In November 1989, the Chilean government held its second debt buyback operation, auctioning public sector external debt, purchasing US$140 million in outstanding debt at the cut-off price of 59 cents of face value.

Chile has made significant strides in reducing its large external indebtedness, which nevertheless remains significant. At end-1989, total debt outstanding was $18.5 billion, equivalent to 73.2 percent of GDP, or 2.3 times the level of merchandise exports. Debt servicing equaled $2.6 billion in 1989—27.6 percent of its exports of goods and nonfactor services.

Public Finances

Improvement in public finances has made an important contribution to the recovery of the economy. The overall nonfinancial public sector deficit has declined from 2.4 percent of GDP in 1985, to a surplus of 3.6 percent in 1988. Excluding the Copper Stabilization Fund, which represented revenues of 2.5 percent of the GDP, public sector savings in 1988 amounted to the equivalent of 5.4 percent of the GDP, slightly down from the 5.8 percent share in 1987. This rate of savings was achieved despite the decrease in the value added tax in mid-year from 20 to 16 percent, and the decrease of across-the-board import tariffs in January 1988 from 20 to 15 percent. The sale of public enterprises generated an additional 1.2 percent of the GDP, contributing to a public sector investment ratio of 6.8 percent of the GDP.

During 1989, the government effectively reduced corporate taxes by changing their collection from an accrued to a distributed profits basis. Despite the further reduction in tax rates, conservative public spending, high copper prices and increased tax revenues resulting from the acceleration in economic activity, kept the 1989 public sector accounts in surplus estimated to be the equivalent of 4.5 percent of GDP (including the Copper Stabilization Fund which amounted to 3.4 percent of GDP).

Savings and Investment

Private savings and investment have traditionally been low in comparison with other countries of similar income levels. Even in the high growth years of the 1970s and after the introduction of the tax reform of 1975, national savings and investment were 11 percent and 16 percent of GDP, respectively. In the last few years, a number of variables contributed to the increase savings. The 1984 tax reform, the 1981 pension system reform, the subsidized reformed housing program based on private ownership, and stable policy conditions contributed to the increase in private savings from about 2.2 percent in 1984 to 9.6 percent in 1989; public savings, spurred by improved tax administration, public enterprise performance, and wage containment, rose as a share of GDP from 0.8 percent in 1984 to 7.4 percent in 1989 (including the Copper Stabilization Fund).

Improved economic prospects contributed to the growth in investment from 13.6 percent of GDP in 1984, to 20.5 percent in 1989, surpassing levels of the 1970s. In the past two years, foreign investment has provided an important stimulus to overall investment, which at 1989 levels may be sufficient to sustain overall economic growth at an annual rate of approximately 4.5 percent.

Social Development

Social development progress in Chile has been impressive. Indeed its classification among the lower middle-income economies (with a per capita income in 1988 of US$1,510) belies its significant progress in improving the welfare of its 12.9 million inhabitants. Its key social indicators are more like those of higher income economies than to the developing world of which it is part. Notably, for example, life expectancy at birth in Chile is 72 years (1987), or only three years lower than the U.S. in that year (75 years); the infant mortality rate of 18.5 per 1,000 live births (1987) is among the lowest in the developing world, rivaling that of Costa Rica, Hungary and Poland; the prevalence of moderate and severe malnutrition among children under six years of age is less than 1 percent (1988), as measured by weight-for-age; and the average years of schooling of 10 years among the population 15 years of age and older (1987) and overall adult literacy rate of 94 percent are targets to which many other developing countries aspire.

Underlying Chile's solid social development performance is a long history of strong political commitment to social welfare by successive governments of widely varying political philosophies, and sustained, substantive investments in the social sectors by them. The continuing commitment is reflected in aggregate fiscal support to social programs in 1988 of US$4 billion equivalent (in 1988 dollars) or some 18 percent of GDP and one-half (53 percent) of the public budget—among the highest share of public budgets allocated to the social sectors in the developing world.

In its pursuit of enhanced equity, efficiency and effectiveness of public social spending, the government set in motion over the late 1970s and 1980s a series of innovative, often controversial, and far-reaching policy, institutional and financial reforms which have had a profound effect on the education, health, nutrition, and housing sectors, social security, and employment. These reforms importantly redefined the role of the state from that of primary provider as well as financier of basic social services to a subsidiary, catalytic one, directing its efforts towards expanding private sector participation in the delivery and financing of social interventions.

A major revamping of housing policies and programs was initiated in 1978 to increase sector productivity and to better meet needs of the poor including: (i) fostering rapid development of the private sector construction industries; (ii) introducing direct, transparent and often substantial, progressive capital subsidies to qualified households; and (iii) encouraging household savings by requiring an initial family contribution to the housing cost as a condition for eligibility for the subsidy.

Since the housing reforms began, publicly stimulated housing production has tripled (from 19,000 units annually in the late 1970s to 52,000 at present) while unit costs have decreased to one-third their 1978 level. Concomitantly, the Ministry of Housing was reduced from a peak of 45,000 to 3,000 employees. Recent program evaluations indicate that housing subsidies are well targeted.

Chile's impressive social sector performance notwithstanding, poverty remains a significant problem. The challenge facing the government in the 1990s will be to accelerate poverty alleviation efforts and, thus, ensure that the benefits of economic growth are more equitably distributed.

Prospects

Having already successfully implemented major economic policy adjustments as a response to the dislocations of the early eighties, Chile's medium-term economic growth remains primarily dependent on the government's ability to satisfy its own social priorities, within the con text of a conservative fiscal stance. Additionally, while substantial progress has been made in reducing Chile's relative external indebtedness, its external debt burden remains large, and the evolution of its terms of trade, international interest rates and world economic growth will play a crucial role on Chile's medium-term economic performance. While copper prices remain high, the prospects for a decline in copper prices are considerable. In the short-term, economic expansion could probably moderate, in order to become consistent with a more sustainable rate of growth.

CHILE

Mid-1989 Population (mils.)	12.9
1989 Per Capita GNP in US$:	1,807

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)/1				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	3.4	3.8	1.9	7.4	10.0
Net Indirect Taxes	8.7	10.5	12.1	..	..	..	..	..	..	..	..
Agriculture	8.7	6.7	7.2	..	..	..	-1.1	4.8	3.8	4.4	5.8
Industry	39.7	41.0	37.3	..	..	..	3.1	1.9	2.2	6.5	..
(of which Manufacturing)	23.9	27.1	21.4	..	..	..	4.1	1.4	2.0	8.5	10.0
Services	51.6	52.4	55.5	..	..	..	4.4	5.0	1.3	8.5	..
Resource Balance	1.1	-1.9	-4.2	4.1	7.2	3.3	..	..	..	..	..
Exports of GNFS	14.1	14.0	22.8	33.5	37.4	37.7	0.3	15.5	5.1	6.1	16.3
Imports of GNFS	13.0	15.8	27.0	29.4	30.2	34.4	6.0	7.3	-2.1	12.1	25.2
Total Expenditures	98.9	101.9	104.2	95.9	92.8	96.7	4.4	2.8	-0.3	9.2	12.6
Total Consumption	84.2	93.9	83.2	79.0	75.8	76.3	5.1	2.1	-0.1	9.4	8.1
Private Consumption	73.4	80.8	70.7	67.6	65.3	66.4	4.9	2.3	0.0	10.1	8.3
General Government	10.9	13.1	12.5	11.4	10.5	9.9	6.3	1.6	-0.5	4.8	0.9
Gross Domestic Investment	14.7	7.9	21.0	16.9	17.0	20.4	0.0	7.2	-0.5	8.6	32.5
Fixed Investment	14.7	12.8	16.6	16.0	16.3	18.5	0.3	4.5	1.0	10.7	20.8
Changes in Stocks	..	-4.9	4.3	0.9	0.7	1.9	..	..	..	..	3.1
Gross Domestic Saving	15.8	6.1	16.8	21.0	24.2	23.7	-8.3	4.3	12.2	24.8	7.4
Net Factor Income	-2.2	-1.1	-3.0	-8.3	-7.9	-7.7	..	..	..	..	..
Net Current Transfers	0.0	0.0	0.2	0.3	0.3	1.0	..	..	..	..	..
Gross National Saving	13.6	5.0	14.1	13.0	16.6	16.9	-7.4	3.4	..	24.2	17.5

In billions of LCUs (at constant 1980 prices)/1	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	666	854	1,075	1,176	1,263	1,389	3.4	3.8	1.9	7.4	10.0
Capacity to Import	125	167	245	275	335	371	2.0	5.4	4.3	21.8	10.8
Terms of Trade Adjustment	45	86	0	-46	-6	-25	..	..	..	..	..
Gross Domestic Income	711	939	1,075	1,130	1,258	1,364	3.4	2.2	1.7	12.6	8.2
Gross National Product	652	845	1,043	1,114	1,186	1,313	3.8	3.5	1.4	5.8	11.1
Gross National Income	697	930	1,043	1,068	1,180	1,288	3.8	1.9	1.2	11.6	9.1

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	26.6	69.8	83.4	100.0	114.7	134.2	42.6	128.5	21.0	14.7	17.0
Wholesale Prices (IFS 63)	23.1	70.0	83.9	100.0	105.9	121.9	46.9	153.2	24.4	5.9	15.1
Implicit GDP Deflator	28.3	69.2	82.5	100.0	121.2	137.4	50.3	146.0	20.8	21.2	13.2
Implicit Expenditures Defl.	26.7	71.4	84.4	100.0	115.2	133.0	49.7	149.5	21.4	15.2	15.4

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.0	1.5	1.7
Labor Force	..	..	..
Gross Natl. Income p.c.	1.8	0.4	-0.5
Private Consumption p.c.	2.9	0.7	-1.7
Import Elasticity:			
Imports (GNFS) / GDP(mp)	1.8	2.0	-1.1
Marginal Savings Rates:			
Gross National Saving	-20.0	91.2	44.7
Gross Domestic Saving	-22.9	91.1	62.9
ICOR (period averages):	..	4.5	7.7

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	26.6	21.0	16.5	20.4
Industry	29.3	27.6	25.1	24.7
Services	44.1	51.4	58.4	54.9
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.MET.CU	76.6	98.5	100.3	100.0	103.6	113.4	2,125	1,789	1,757	2,234	3,417	4,021
X.MET.X	..	..	..	..	..	..	490	332	339	377	..	..
X.OAGRI	45.7	76.2	89.8	100.0	..	..	340	515	683	796	930	..
X.MAN.TEXT	..	..	..	..	..	..	8	..	..	..	..	..
Manufactures	57.5	75.8	89.8	100.0	119.6	141.8	1,751	1,168	1,420	1,755	2,273	1,339
Residual	..	..	..	..	..	..	-8			-116	428	1,396
Total Exports FOB	68.2	87.3	93.8	100.0	119.1	133.5	4,706	3,804	4,199	5,046	7,048	8,080
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	191	95	111
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	193.8	79.5	85.5	100.0	143.2	174.3	2,071	751	754	901	759	1,113
Other Intermed. Goods	100.8	79.3	85.5	100.0	121.7	148.0	2,800	1,867	1,947	2,395	2,728	3,504
Capital goods	132.3	79.6	85.6	100.0	161.0	249.1	1,274	650	735	1,101	1,251	1,774
Total Imports CIF	119.8	79.3	85.3	100.0	116.7	152.0	6,145	3,268	3,436	4,396	4,833	6,502

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	136.8	86.3	88.6	100.0	117.6	120.5
Merch. Imports Price Index	116.7	93.7	91.6	100.0	94.2	106.9
Merch. Terms of Trade	117.2	92.0	96.8	100.0	124.5	126.3

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	5,968	4,468	5,121	6,309	8,265	9,479
Merchandise (FOB)	4,705	3,804	4,199	5,224	7,052	8,080
Non-Factor Services	1,263	664	922	1,085	1,213	1,399
Imports of Goods & NFS	7,023	3,921	4,417	5,499	6,640	8,673
Merchandise (FOB)	5,469	2,954	3,099	3,994	4,833	6,502
Non-Factor Services	1,554	967	1,318	1,505	1,807	2,171
Resource Balance	-1,055	547	704	810	1,625	806
Net Factor Income	-1,029	-1,936	-1,925	-1,744	-1,970	-1,950
(interest per DRS)	918	1,637	1,405	1,390	1,019	1,331
Net Current Transfers	64	47	40	65	63	240
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-2,020	-1,342	-1,181	-869	-282	-904
Net Official Transfers	49	14	44	61	114	0
Curr. A/C Bal. after Off. Transf.	-1,971	-1,328	-1,137	-808	-168	-904
Long-Term Capital Inflow	2,242	900	804	833	1,310	876
Direct Investment	170	62	57	97	109	169
Net LT Loans (DRS data)	2,089	1,121	810	597	963	545
Other LT Inflow (Net)	-17	-283	-63	139	238	163
Total Other Items (net)	974	330	106	33	-409	531
Net Short Term Capital	923	333	18	111	-307	488
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	51	-3	88	-78	-102	43
Changes in Net Reserves	-1,245	98	227	-58	-733	-483
Net Credit from the IMF	-56	309	243	133	-142	-46
Other Reserves Changes	-1,189	-211	-16	-192	-591	-437
As Share of GDP:						
Resource Balance	-3.8	3.4	4.2	4.3	7.4	3.2
Interest Payments	3.3	10.2	8.4	7.3	4.6	5.3
Current Account Balance	-7.3	-8.4	-7.0	-4.6	-1.3	-3.6
Memorandum Items:						
Reserves excl. Gold (mil. US$)	3,123	2,450	2,351	2,504	3,161	..
Reserves incl. Gold (mil. US$)	4,128	2,950	2,949	3,244	3,788	0
Official X-Rate (LCUs/US$)	39.00	161.08	193.02	219.54	245.05	267.16
Index Real Eff. X-R Base 1980	100.00	68.85	58.19	53.97	50.48	..
GDP (millions of current US$)	27,571	15,996	16,817	18,948	22,081	25,248

I. Budget (Consolidated NFPS)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts a/	35.0	33.9	32.6	31.8	31.9	..	-7.8	0.9	3.7	35.0	..
Current Expenditures	24.5	29.4	27.1	25.8	24.0	..	3.9	-2.6	0.7	24.5	..
Current Budget Balance	10.5	4.5	5.5	5.9	7.9	..	..	..	..	10.5	..
Net Capital Revenue	0.4	0.6	0.7	0.9	1.2	..	62.9	76.1	26.4	0.4	..
Capital Formation	5.4	7.2	7.9	6.9	6.8	..	-6.9	13.2	2.6	5.4	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit (-)	5.5	-2.1	-1.7	-0.1	2.3	..	..	-22.8	-55.6	5.5	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing	-0.1	4.0	2.6	..	..	..	..	..	..	-0.1	..
Domestic Borrowing	-5.4	-1.4	-0.7	..	..	..	..	..	..	-5.4	..
Domestic Bank Financing	..	..	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	-34	1,131	724	523	502	-31	4,705	12,897	14,689	15,554	13,760	10,124
Official Creditors	-148	435	419	417	627	219	1,374	2,107	2,930	3,904	4,338	4,399
Multilateral	31	470	441	428	395	250	351	1,532	2,294	3,218	3,391	3,265
of which IBRD	5	212	341	271	212	97	163	487	962	1,478	1,566	1,618
of which IDA	0	-1	-1	-1	-1	-1	21	18	17	16	16	15
Bilateral	-179	-35	-22	-11	233	-31	1,023	575	637	686	947	1,134
Private Creditors	114	696	304	106	-125	-250	3,331	10,790	11,759	11,650	9,421	5,725
Suppliers	-69	0	46	125	8	-70	431	349	378	513	496	800
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	2,123	-10	87	74	461	576	4,693	4,731	3,435	2,466	2,361	3,153
Total LT	2,089	1,121	810	598	963	545	9,398	17,628	18,124	18,020	16,121	13,277
IMF Credit	-52	199	115	-73	-67	-21	123	1,088	1,331	1,465	1,322	1,268
Net Short-Term Capital	923	333	18	111	-307	488	2,560	1,668	1,689	2,017	2,202	2,973
Total incl. IMF & Net ST	2,961	1,652	943	635	589	1,012	12,081	20,384	21,144	21,502	19,645	17,518

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	1.73	2.76	5.31	8.20	9.72	12.18
2. IDA as % of Total	0.22	0.10	0.09	0.09	0.10	0.11
3. IBRD+IDA as % of Total	1.95	2.86	5.40	8.29	9.81	12.99
Share of LT Debt Service						
1. IBRD as % of Total	1.04	1.87	4.33	7.37	10.24	9.79
2. IDA as % of Total	0.02	0.04	0.05	0.05	0.05	0.04
3. IBRD+IDA as % of Total	1.06	1.91	4.38	7.41	10.29	9.83
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	149.75	377.55	338.83	277.57	190.78	140.06
2. IMF Credit/Exports	1.96	23.30	24.89	22.56	15.65	13.39
3. Short-Term Debt/Exports	40.79	35.73	31.58	31.07	26.06	31.36
4. LT+IMF+ST DOD/Exports	192.50	436.58	395.29	331.20	232.49	184.80
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	34.09	110.20	107.77	95.10	73.01	40.00
2. IMF Credit/GDP	0.45	6.80	7.92	7.73	5.99	5.01
3. Short-Term Debt/GDP	9.29	10.43	10.04	10.65	9.97	11.78
4. LT+IMF+ST DOD/GDP	43.82	127.43	125.73	113.48	88.97	72.00
Debt Service /Exports						
1. Public & Guaranteed LT	21.90	26.37	28.52	21.03	14.87	18.57
2. Private Non-guaranteed LT	16.02	15.75	4.47	5.62	4.25	4.90
3. Total Long-Term Debt Service	37.92	42.12	33.00	26.65	19.12	23.47
4. IMF Repurchases+Serv. Chgs.	1.01	1.38	4.95	7.04	4.26	3.12
5. Interest only on ST Debt	4.18	5.14	3.55	2.77	1.93	2.53
6. Total (LT+IMF+ST Int.)	43.11	53.90	41.49	36.46	25.31	29.12

Notes:

/1 Refers to 1980 prices; constant prices cannot be rebased to 1987 due to lack of current price industrial origin data.

e = estimated data
p = preliminary data

China

Beginning in 1978, China initiated economic reforms first in rural areas, followed by reforms in urban areas and in the external sector. These reform policies have contributed significantly to China's rapid GDP growth, averaging about 9 percent per annum over the last decade. High investment rates (over 35 percent of GDP since 1985) and a strong domestic savings performance, which contained the need for external borrowing, also contributed. Industrial modernization increased the competitiveness of China's manufactures in the international market and total merchandise exports grew from \$18.3 billion in 1980 to \$52.5 billion in 1989, to reach almost 13 percent of GDP. China's share of international trade rose from 1.0 percent to 1.7 percent during the same period. The average income of China's rural population, 800 million strong, more than doubled and absolute poverty receded nationwide. In 1988, some 13 percent of rural households fell below the poverty line, compared with 17 percent in 1981. Infant and child mortality declined, the rate of population growth was slowed and universal five-year primary education was achieved.

The economic system reforms introduced (some on an incremental basis, some on an experimental basis) after periods of local and regional experimentation have served to magnify the growth impulse derived from China's high rate of capital accumulation. In the state enterprise sector, industrial, commercial and transport enterprises now have greater freedom to determine the composition and pricing of output, to retain after-tax profits and decide on the disposition of retained earnings.

Fiscal reforms have, in turn, allowed resources previously annexed by the government to be retained by enterprises and this, together with a large degree of fiscal decentralization, has given provincial authorities more discretion in taxation and resource allocation. Administrative decentralization has also transferred more authority to plan and manage economic activity from the central government to provincial and local bodies, more responsive to local conditions and strongly motivated to promote development, although in some cases with very short-run or limited horizons. Central control over the economy has been scaled back by reducing the number of commodities subject to mandatory plan targets, and the share of key products distributed through state-controlled channels.

Although China remains an economy where public ownership is dominant, the government has permitted other forms of ownership (e.g., private, cooperative, foreign joint venture, etc.). Product markets have been created, first in the rural areas and then in the urban sector, which allow producers to trade their above-plan output at freely determined prices. Financial reforms have dismantled the old monobanking system and increased the variety of financial institutions, as well as the volume and scope of financial transactions and instruments. The pronounced shift away from budgetary support of investment has reinforced the importance of the financial sector in mobilizing and allocating resources. Lastly, external trade and exchange rate reforms have had a significant impact, and the creation of several Special Economic Zones and legislation governing foreign investment and the rights of overseas businesses, paralleled by fiscal and wage incentives and now infrastructure, has helped attract an increasingly large volume of foreign capital.

Since early 1989, China has concentrated its efforts on regaining control over macroeconomic developments, following the overheating of the economy and rapid inflation of 1988/89. In 1990, stabilization remains at the forefront of domestic policy concerns but increasingly the authorities are moving to restore economic momentum. However, the sustainability of acceptable rates of economic growth in the coming decade hinges upon China's commitment to further reform and the openness of its economy.

Recent Economic Developments

In recent years, the government has experienced difficulties in combining its growth and reform objectives with maintenance of economic stability. China's success in achieving growth targets was accompanied by emerging structural imbalances, but as long as fiscal and monetary policies remained under control, rapid growth coexisted with stable prices. However, industrial decentralization, worsened "investment hunger," and credit policies responsive to local demands, weakened the center's ability to control monetary aggregates.

More generally, the attempts at transforming such a complex economy in fairly short span of time have inevitably resulted in macroeconomic as well as institutional imbalances. During the 1980s, China experienced cycles in economic activity of increasing severity, associated with the transition from a centrally planned system to one where plan and market coexist. First, the lag between administrative decentralization and the creation of an institutionalized capacity for macromanagement gave rise to excessive monetary expansion over the 1985-88 period that stoked inflation. In the absence of new fiscal measures to offset the decline in traditional revenue sources, revenues as a percentage of GNP fell, and the budget deficit gradually widened from 0.5 percent of GNP in 1985 to 2.5 percent in 1987 and has remained at about that level during 1988-89. The decisions to increase agricultural procurement prices, larger state subsidies to urban consumers, combined with enterprise losses in the energy and basic industries sectors, are important ingredients in explaining the budgetary picture. Second, the dual pricing system which was an important step in the transition toward a market system has brought in its train distortions which reinforce the propensity toward negotiation and the possibility of corruption, and shelter enterprises from competition by virtue of bureaucratic connections and advantages that "soften" their budget constraint. Third, slow progress toward more competitive markets that discipline enterprise behavior has allowed decentralized provincial bureaucracies to push ahead with unsustainable rates of expansion. As yet, China has been unable to enforce financial accountability on the state enterprises so that the effects of market forces to rationalize capacity or achieve efficient resource allocation have been blunted.

It was against this background of partial reforms that demand pressures became pronounced in the first half of 1988, pushing the economy to the limits of its productive potential. (For 1988 as a whole, GDP grew by 11.2 percent, led by industrial growth of 20.7 percent, and the consumer prices index rose 20.7 percent.) When, under these overheated conditions, the authorities announced, in June 1988, plans for a major price reform, inflation worsened as consumers switched in panic from financial assets into durable consumer goods. Prices that had been rising at annualized monthly rates of 10-15 percent in early 1988 soared to an (annualized) monthly rate approaching 80 percent, in August. Faced with this crisis, the government postponed further price liberalization and, in late 1988, adopted a series of stabilization measures, with inflation control becoming the most important policy goal for 1989. The main elements of a medium-term stabilization strategy began in late 1988 and policies were being translated into actions by early 1989.

The stabilization package included, first, administrative guidelines to cut state investment by some 20 percent, to reduce the level of excess demand. A contractionary monetary policy, relying mainly on the administrative allocation of credit was also imposed, along with higher interest rates and increased reserve requirements. There was also some tightening of state control over price setting, and an increasing use of income policies to contain the emerging wage and bonus spiral. This policy response was consistent with international recommendations at the time, which emphasized the need for a credible stabilization policy but cautioned against a hard and prolonged application of austerity measures that, in the Chinese context, could result in much dislocation and large production losses, threaten economic vitality and risk stagflation.

Evidence to mid-1990 suggests these measures have been successful in stabilizing the economy but at the cost of a considerable sacrifice in growth. While inflation in the first half of 1990 has been brought down to the low single-digit level (3.0 percent year on year), there was also a marked slackening in the rate of industrial growth throughout 1989, which became negative in the last quarter of 1989. By the first half of 1990, industrial output had regained lost ground, and was about 2 percent over its level a year earlier. Urban registered unemployment worsened, although much of the shock has been absorbed by the return of the large transient population to the countryside.

On the external front, there have been some positive developments. The trade deficit widened significantly by June 1989 to $6.6 billion, and the reduction in service income, especially tourism receipts and the abrupt cessation of foreign direct investment commitments following the June incident, were major burdens on the external accounts. However, by year-end, administrative controls on imports and dampened domestic demand, together with good export growth—the result in part of a 21 percent devaluation of the renminbi in December 1989—led to a current account deficit for the year as a whole of $4.3 billion (about 1.1 percent of GNP). The first half of 1990 shows a surplus in the trade account of about $4.6

billion; for the year as a whole, the current account is expected to show a modest surplus.

As a result, while recent political and economic developments have affected China's external financing situation and raised borrowing margins, China's debt indicators have not been significantly affected, as both GNP and exports have risen rapidly. Debt-to-GDP ratios are expected to remain in the 10 percent range, while the total debt-to-exports ratio is about 75 percent. The debt service-to-exports ratio has remained at about 9 percent, well below China's official policy ceiling for this ratio of 15 percent. Current official estimates show China's total debt outstanding at end-1989 to be about $41.3 billion. Currency and gold reserves were equal to $18.5 billion, or about 3.5 months of imports, at end-1989. Past trends and the current assessment suggest that the country's growth as well as export potential are substantial and savings behavior is likely to remain stable. Current account trends do not raise the specter of payment difficulties in the near future. Nonetheless, tight import controls will most likely remain in place over the short term with the negative allocational implications derived from these policies.

Reforms

It is widely recognized that China's rapid growth over the past decade is attributable largely to the economic reform policies initiated in 1979 and the resulting improvements in overall allocative efficiency. There is also consensus that its future prospects will depend critically on continued reform and openness to the outside world. Chinese leaders have reaffirmed, in the Fifth Plenum of the Central Committee Meeting of November 1989 and more recently in the leadership speeches to the National People's Congress, that these policies remain the core of China's long-term development strategy.

Commitment also remains to further reforms in the areas of enterprise contract responsibility systems, taxation, and social security. Among the reform achievements to date has been a broadening and delineating of decisionmaking authority of firms through enterprise reform. Virtually all state-owned industrial and nonindustrial enterprises in sectors such as transport, commerce, and construction are now subject to a profit tax system, which replaces the earlier system of remittance of profits to the government budget. While further reforms are required in enterprise taxation, these fiscal reforms have given enterprises and provinces significantly more autonomy. Urban collective and individual enterprises, as well as Township and Village Enterprises (TVEs), have also been expanded, although very recent policies curtailed their growth (these have experienced the highest growth rates in the economy over the past few years) while the excess demand situation is brought under control.

With respect to investment and financial policies, new banks have been established, and a variety of financial instruments are emerging, broadening the range of financing available to enterprises, beyond only bank credit. Reforms were also introduced in the trade and payments regime, which reduced the government monopoly on trade and foreign exchange, and a second round of reforms in agriculture (including land tenure contracts and leases) was initiated in 1989. Finally, the dual price system has left a shrinking share of goods subject to mandatory plan allocation and administrative pricing; above-quota sales of the same goods take place at flexible or free-market prices. Although the list of state-distributed commodities was slightly increased in 1989, the government has indicated its commitment to further narrowing the scope of physical allocation and administered pricing over time. There is clear awareness that the dual pricing system risks becoming a barrier to further economic progress: while initially boosting incentives and productivity especially in agriculture and light industry where most prices were freed early on, the system now increasingly gives rise to distortions, since key inputs such as steel, energy, cement and fertilizers remain controlled.

As is inevitable, the reforms and the manner in which they have been implemented have, in spite of their benefits, been profoundly unsettling to economic agents. For 30 years, China sought, and to a large degree achieved, stability and distributional equity. Since 1979, the status quo has been undermined in many ways including the freeing of agricultural and other prices, the growth of the collectives sector, and increased autonomy of industrial firms. Reforms have weakened monetary policy, on the one hand, as local governments have been able to circumvent administrative credit controls, and on the other, the tax system—only partially reformed—is unable to implement an effective revenue policy. Rigidities in enterprises continue to put pressure on the fiscal accounts for ongoing subsidies. If China is to resume its ascent to prosperous modernity, some of the problems that have arrived with reforms must be settled.

Paralleling its reaffirmation of the need to rectify the economy and to deepen reform to ensure "stable and "harmonious" development, the Fifth Plenum endorsed a stabilization program, to continue through 1991, the principal goals of which are to reduce inflation, shrink the budget deficit, maintain stable and sustainable growth and to rationalize the industrial structure and strengthen key institutions. In this context, the Fifth Plenum's call for some augmentation of the center's authority, particularly in selected areas of macroeconomic management, is a prudent one, provided that it gives an enlarged role to indirect policy instruments that can be employed more flexibly than administrative measures. Now that inflation has been reduced, the most urgent task facing the government is to prepare an agenda of actions that will establish a sound basis for strengthening macroeconomic policies and institutions to prevent a recurrence of demand and price pressures, and for advancing toward the next stage of price and market liberalization.

Long-Term Issues and Options

China's continued growth performance is predicated on the success of macroeconomic management. In this context, maintaining an adequate saving rate and avoiding inflation and deep cyclical downturns will be major goals. China has tackled a serious macroeconomic crisis; whether inflation is being temporarily repressed and will again become a threat when the economy revives in the post-austerity period depends very much on macro and reform policies over the medium run. Indeed, the impact of recent administrative measures on output growth has already led to pressures for a relaxation of policy, particularly bank credit. Thus, unless steps are taken to develop indirect instruments that enhance the effectiveness of stabilization policies, and strengthen the role of market forces, inflation and excess demand might well resume when restraints are relaxed.

Austerity and restrained demand during 1990-91 should make price reform easier to implement. However, other reforms in the real sector, such as enterprise reform are necessary to improve resource allocation and ease supply constraints. Priorities for the 1990s include strategies for sectoral development, price liberalization and further progress with ownership reform. The first will have a major influence on growth of the real economy, whereas the latter two will determine the gains in efficiency and stability to be derived from the market system. If the balance between planning and markets could be shifted toward the latter—this could be done even with assets remaining largely in public hands—the problems arising from decentralized administration could be lessened, and the government would be able to pursue firm macroeconomic policies.

Assuring an adequate minimum standard of living for the rural population and an appropriate level of social services will also remain a major challenge, as enterprise and rural communal responsibilities in these areas are reduced. The problem of poor and backward rural areas in various parts of the country will continue to require attention. Redistributing financial resources to these areas through the fiscal system and easing restrictions on migration out of the poorest areas are some options for alleviating poverty. With respect to labor policies, inefficient utilization of labor in the state sector of the economy also continues to be a major problem and requires coordinated reforms in labor allocation, the wage system, enterprise management, and social services. Reforms in the system of education and training to further develop China's "human capital" potential are crucial.

Hitherto, China's rapid growth has relied heavily on investment spending more than on consumption. If growth is to be accompanied by parallel improvements in standards of living, a decline in the share of investment over the longer term and, above all, significant improvements in its allocation are required. However, continued investment in energy, transport and agriculture are necessary, as without new infrastructural investments and improved efficiency, economic growth will lag. In mobilizing resources in all these areas, China will require foreign resources and assistance. Finally, technological backwardness and inefficiency could be addressed by reforms that facilitate transfer of advanced foreign technology.

As incomes rise, there will be major structural changes over the next decade, including a reduction in the share of agriculture, a rise in the share of light industry. The rising income levels will also call for greater development of the service sector (whose share of GDP at present is unusually low), best achieved through removing restrictions on collective and individual activity. Furthermore, the rapid aging of China's population and the concomitant demographic shifts related to the slowdown in population growth will take place, and resources will have to be devoted to them, especially in the decades after 2000.

Finally, to mobilize the external resources needed for growth, China will have to emphasize export growth and attract foreign investment and the transfer of technology under at least temporarily more adverse conditions. Continued borrowing on world capital markets, including increased but cautious commercial borrowing, will be needed through the end of the decade. Under a growth-oriented scenario, the present debt service ratio would remain about constant, and below the 15 percent ceiling set by the authorities. If China's exports grew more slowly, import growth would probably also be reduced, because a higher borrowing target, although feasible in market terms, might not be comfortable in terms of the aforementioned debt service indicators. This highlights the need for China to continue to emphasize export growth and reform of the foreign exchange and trade systems in order to meet its economic objectives. The government recognizes the role that flexible use of exchange rate and pricing policies and trade reform can play in encouraging export growth.

The transition from centralized planning to an effective integration of plan and market is a difficult process. Expectations, both within China and abroad, have been pitched very high and may have to be moderated in the next few years while China attempts to develop appropriate indirect monetary and fiscal instruments, and implement the reform program. Even with continued good export performance, China may require external capital to finance the current account through the early 1990s, and access to concessional and official capital will continue to play an important role in sustaining China's growth. China is still one of the poorest countries of the world, but its access to concessional capital for financing development and modernization is limited.

CHINA

Mid-1988 Population (mils.)	1084
1988 Per Capita GNP in US$:	330

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from 1987 constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	7.5	5.1	9.5	11.2	3.9
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	..
Agriculture	44.1	37.3	35.9	33.8	32.4	..	2.8	2.1	5.8	3.2	3.3
Industry	38.7	45.0	48.9	45.7	46.1	..	12.1	8.7	11.9	20.7	8.3
(of which Manufacturing)	30.6	34.3	35.9	..	..	..	..	..	..	..	..
Services	17.2	17.8	15.1	20.4	21.4	..	18.4	5.3	12.0	3.2	-6.6
Resource Balance	0.8	0.8	0.1	-0.1	-0.9	-0.7	..	..	..	..	..
Exports of GNFS	4.2	4.6	6.7	14.1	13.9	13.6	2.1	3.8	28.0	17.2	7.8
Imports of GNFS	3.4	3.8	6.6	14.2	14.8	14.3	1.6	11.2	26.5	20.8	14.5
Total Expenditures	99.2	99.2	99.9	100.1	100.9	100.7	7.5	5.4	9.5	11.7	4.9
Total Consumption	75.2	70.2	67.7	60.9	62.0	64.3	6.1	3.9	8.7	12.6	9.8
Private Consumption	61.1	56.2	56.2	54.8	56.4	..	5.9	3.7	9.9	13.9	..
General Government	14.1	14.0	11.5	6.2	5.6	..	7.0	5.0	..	..	..
Gross Domestic Investment	24.0	29.0	32.2	39.2	38.9	36.4	12.9	9.0	11.3	10.4	-2.8
Fixed Investment	..	..	24.0	32.1	32.5	25.4	..	..	13.3	12.6	-18.6
Changes in Stocks	..	..	8.2	7.1	6.5	10.9	..	..	..	..	..
Gross Domestic Saving	24.8	29.8	32.3	39.1	38.0	35.7	12.7	8.7	11.8	12.9	-6.0
Net Factor Income	0.0	-3.3	0.0	-0.1	0.0	-0.3	..	..	..	..	..
Net Current Transfers	0.0	0.0	0.2	0.1	-0.1	-0.1	..	..	..	..	..
Gross National Saving	24.8	26.5	32.5	39.1	37.9	35.3	12.7	8.7	11.8	12.4	-7.1
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	243	427	594	1,136	1,263	1,312	7.5	5.1	9.5	11.2	3.9
Capacity to Import	13	17	28	160	204	216	2.8	9.1	29.6	28.0	5.8
Terms of Trade Adjustment	-2	-1	2	0	17	15	..	..	..	..	..
Gross Domestic Income	242	426	596	1,136	1,280	1,326	7.5	5.3	9.7	12.7	3.6
Gross National Product	243	427	594	1,135	1,262	1,306	7.5	5.1	9.5	11.2	3.4
Gross National Income	242	426	596	1,135	1,280	1,320	7.5	5.3	9.7	12.7	3.2

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	70.1	85.9	91.9	100.0	120.7	140.4	..	2.3	6.5	20.7	16.3
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	75.2	89.7	94.6	100.0	109.7	119.9	-0.7	2.0	4.9	9.7	9.3
Implicit Expenditures Defl.	71.0	90.3	95.7	100.0	110.1	118.9	-0.8	1.8	5.0	10.1	8.0

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	2.7	1.6	1.3	
Labor Force	3.2	2.1	3.2	
Gross Natl. Income p.c.	4.4	5.9	8.9	
Private Consumption p.c.	7.1	7.2	7.5	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	0.4	2.3	1.7	
Marginal Savings Rates:				
Gross National Saving	30.9	42.7	40.9	
Gross Domestic Saving	35.9	37.9	40.9	
ICOR (period averages):	3.5	5.9	2.6	
Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	81.6	78.7	68.9	59.5
Industry	8.4	12.3	18.5	22.6
Services	10.0	9.0	12.6	17.9
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FUEL	..	..	..	..	..	..	4,273	7,132	3,683	4,544	3,972	4,270
X.FOOD	..	..	..	..	..	..	3,138	4,043	4,681	5,037	6,201	6,544
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	9,051	13,522	19,670	26,206	33,110	37,460
Residual	..	..	..	..	..	..	1,727	2,653	2,908	3,650	4,257	4,212
Total Exports FOB	..	..	..	..	..	..	18,189	27,350	30,942	39,437	47,540	52,486
F. Merchandise Imports												
Food	..	..	..	..	..	..	3,211	1,881	2,002	3,055	4,191	5,269
Fuel and energy	..	..	..	..	..	..	203	172	504	539	787	1,650
Other Consumer Goods	..	..	..	..	..	..	544	2,330	2,431	1,743	1,757	1,866
Other Intermed. Goods	..	..	..	..	..	..	10,639	19,175	17,552	16,769	23,392	23,415
Capital goods	..	..	..	..	..	..	5,353	18,694	20,415	21,110	25,125	26,942
Total Imports CIF	..	..	..	..	..	..	19,950	42,252	42,904	43,216	55,251	59,142

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	117.2	104.2	93.8	100.0	102.8	107.4
Merch. Imports Price Index	93.2	103.0	102.2	100.0	105.9	101.2
Merch. Terms of Trade	125.8	101.2	91.8	100.0	97.1	106.1

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	19,952	29,957	33,926	42,934	51,905	56,183
Merchandise (FOB)	18,270	27,350	30,940	39,440	47,540	52,486
Non-Factor Services	1,682	2,607	2,986	3,494	4,365	3,697
Imports of Goods & NFS	19,550	42,250	42,910	43,210	55,250	59,142
Merchandise (FOB)	17,927	38,743	39,348	39,624	50,664	54,233
Non-Factor Services	1,623	3,507	3,562	3,586	4,586	4,909
Resource Balance	402	-12,293	-8,984	-276	-3,345	-2,959
Net Factor Income	-100	932	176	-164	-126	-1,421
(interest per DRS)	317	588	646	1,117	1,593	2,247
Net Current Transfers	640	171	255	249	-331	-211
(workers' remittances)	0	180	208	166	129	138
Curr. A/C Bal. before Off. Transf.	942	-11,190	-8,553	-191	-3,802	-4,591
Net Official Transfers	-70	73	124	-25	3	171
Curr. A/C Bal. after Off. Transf.	872	-11,117	-8,429	-216	-3,798	-4,591
Long-Term Capital Inflow	1,760	4,437	7,058	5,790	7,056	3,383
Direct Investment	57	1,030	1,425	1,669	2,344	1,400
Net LT Loans (DRS data)	1,926	4,005	4,851	6,238	6,771	3,284
Other LT Inflow (Net)	-223	-698	782	-2,117	-2,059	-1,301
Total Other Items (net)	-2,330	2,215	-496	-747	-1,018	-412
Net Short Term Capital	-4,001	1,650	-1,076	703	76	-10
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	1,671	565	580	-1,450	-1,094	-402
Changes in Net Reserves	-372	4,638	1,991	-4,852	-2,236	1,620
Net Credit from the IMF	0	0	731	0	0	79
Other Reserves Changes	-372	4,638	1,260	-4,852	-2,236	1,541
As Share of GDP:						
Resource Balance	0.1	-4.3	-3.2	-0.1	-0.9	-0.7
Interest Payments	0.1	0.2	0.2	0.4	0.4	0.5
Current Account Balance	0.3	-3.8	-3.0	-0.1	-1.0	-1.1
Memorandum Items:						
Reserves excl. Gold (mil. US$)	2,545	12,728	11,453	16,305	18,541	17,960
Reserves incl. Gold (mil. US$)	10,091	16,881	16,417	22,453	23,751	23,053
Official X-Rate (LCUs/US$)	1.50	2.94	3.45	3.72	3.72	3.81
Index Real Eff. X-R Base 1980	100.00	63.07	45.94	39.85	43.37	50.36
GDP (millions of current US$)	298,498	290,794	281,492	305,134	372,318	413,432

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	29.4	26.7	25.1	22.6	20.7	..	7.9	7.0	4.9	11.9	..
Current Expenditures	22.2	19.7	19.4	18.0	17.3	..	9.9	11.9	8.7	17.3	..
Current Budget Balance	7.3	7.0	5.8	4.6	3.4	..	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	10.6	7.5	7.7	6.8	5.9	..	0.7	17.0	2.5	5.7	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-3.3	-0.5	-2.0	-2.2	-2.5	-2.3	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	0.5		0.6	0.6	0.8	..	..	..	..	..	..
Domestic Non-Bank Financing		0.7	0.6	1.0	1.1	..	..	..	..	..	..
Domestic Bank Financing	2.8	-0.2	0.8	0.6	0.6	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	1,927	4,006	4,851	6,238	6,771	3,283	4,504	9,963	16,598	26,051	32,196	34,211
Official Creditors	194	1,088	1,174	725	1,444	1,109	446	4,478	6,753	9,275	10,406	10,888
Multilateral	0	599	618	628	1,081	1,072	0	984	1,810	2,860	3,758	4,760
of which IBRD	0	354	324	209	514	542	0	498	965	1,427	1,832	2,330
of which IDA	0	212	282	399	557	486	0	431	774	1,330	1,819	2,275
Bilateral	194	489	556	96	363	37	446	3,495	4,943	6,415	6,648	6,128
Private Creditors	1,733	2,917	3,677	5,513	5,327	2,174	4,058	5,485	9,845	16,777	21,790	23,323
Suppliers	377	-211	48	-247	317	629	1,037	1,303	1,587	1,615	1,849	2,397
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	1,927	4,006	4,851	6,238	6,771	3,283	4,504	9,963	16,598	26,051	32,196	34,211
IMF Credit	0	0	665	-81	-83	-79	0	340	1,072	1,155	1,013	908
Net Short-Term Capital	-4,059	2,270	-2,042	437	-25	-10	0	6,419	6,076	8,221	8,806	8,725
Total incl. IMF & Net ST	-2,132	6,276	3,474	6,593	6,664	3,194	4,504	16,722	23,746	35,428	42,015	43,844

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	5.00	5.82	5.48	5.69	6.81
2. IDA as % of Total	0.00	4.33	4.66	5.10	5.65	6.65
3. IBRD+IDA as % of Total	0.00	9.33	10.48	10.58	11.34	13.46
Share of LT Debt Service						
1. IBRD as % of Total	0.00	1.35	2.63	6.84	4.46	5.08
2. IDA as % of Total	0.00	0.20	0.33	0.40	0.41	0.31
3. IBRD+IDA as % of Total	0.00	1.56	2.97	7.24	4.88	5.40
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	22.01	33.41	53.73	64.62	68.26	58.99
2. IMF Credit/Exports	0.00	1.14	3.47	2.87	2.15	1.56
3. Short-Term Debt/Exports	0.00	21.53	19.67	20.39	18.67	15.04
4. LT+IMF+ST DOD/Exports	22.01	56.08	76.87	87.88	89.08	75.60
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	1.51	3.43	5.90	8.54	8.65	8.27
2. IMF Credit/GDP	0.00	0.12	0.38	0.38	0.27	0.22
3. Short-Term Debt/GDP	0.00	2.21	2.16	2.69	2.37	2.11
4. LT+IMF+ST DOD/GDP	1.51	5.75	8.44	11.61	11.28	10.60
Debt Service /Exports						
1. Public & Guaranteed LT	4.54	6.31	8.15	7.55	7.82	7.56
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	4.54	6.31	8.15	7.55	7.82	7.56
4. IMF Repurchases+Serv. Chgs.		0.01	0.12	0.32	0.28	0.25
5. Interest only on ST Debt		1.99	1.35	1.59	1.13	1.35
6. Total (LT+IMF+ST Int.)	4.54	8.31	10.74	9.46	9.24	9.30

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Colombia

Colombia's population, estimated at 32.3 million in mid-1989, occupies an area of just over a million square kilometers. Two-thirds of the population now lives in urban areas. Solid growth for the past 20-30 years, combined with a reduction in the population growth rate to 1.9 percent per year, have facilitated substantial improvement in social conditions. Life expectancy at birth now stands at 64 years compared with 50 years in 1970; primary school enrollment was over 80 percent in 1985 and the literacy rate about 80 percent. Nonetheless, poverty remains a critical problem. Some 25 percent of the population has substandard nutrient intake levels, more than a third lacks access to safe water, and child mortality remains high. Disparities in the quality of life among regions are also significant and contribute to strong regional pressures in many spheres of activity.

Natural resources are plentiful. These include agricultural land, water for irrigation, energy resources (oil, natural gas, and coal), and mineral resources such as nickel, gold, and emeralds. Colombia has a significant locational advantage because it is close to North America with coasts on both the Pacific and Atlantic Oceans. Mountainous terrain, however, makes internal transportation costly and slows down physical and social integration. Rich physical resources, the literate and dependable workforce, a robust private sector, competent national economic management, and political stability are major factors explaining Colombia's good record of economic development and social improvements over the last 30 years.

World coffee price cycles, world economic conditions, and the attendant shifts in economic policies demarcate the development episodes of the last two decades. Several episodes can be distinguished: 1967-75, 1975-80, 1980-83, 1983-87 and after 1987. The 1967-75 period witnessed the pursuit of prudent economic policies. GDP growth averaged 6.3 percent a year. During 1975-80, a coffee boom took place. Because the government was not successful in sterilizing coffee export earnings, inflation rose and the real exchange rate appreciated. As a result, growth of nontraditional exports slowed considerably, and economic growth slowed to 5 percent a year. After the coffee boom subsided in the early 1980s, public sector deficit rose sharply. Since the deficit was monetized, it brought high inflation. Exports declined as a result of continued appreciation in the real exchange rate and the fall in international demand. The current account turned from a slight deficit in 1980 to a deficit of 10.8 percent of GDP in 1983. In spite of the progressive tightening of import restrictions, international reserves fell sharply by the end of 1984. During 1980-83, GDP growth averaged only 1.6 percent a year.

In late 1984 the government introduced an economic adjustment program designed to achieve stabilization with growth. Devaluation of the nominal exchange rate was sharply accelerated. The government deficit was reduced through both tax increases and expenditure reductions. Import restrictions, imposed during the previous period, were rolled back. The public sector investment was streamlined. Colombia was able, because of this convincing policy effort, to secure renewed support from the international financial community.

The economic adjustment program was quite successful. By 1986, the current account, helped by higher coffee prices and a rapid expansion of petroleum and coal exports, turned into surplus for the first time in several years. The consolidated public sector deficit registered a small surplus of 0.4 percent of GDP. Nontraditional exports and private investment grew rapidly. As a result, the rate of GDP growth recovered to 5.8 percent in 1986. The government repaid some short-term external debt and built up reserves. The government also launched a major tax reform program with a view to improving tax collections and thus keep reducing the budget deficit.

The economic program was sustained by the Barco administration which took office in August 1986. For 1987, the rate of GDP growth was 5.3 percent. Despite a sharp decline in coffee prices, the current account was in near balance due to a large increase in private transfers and continued good performance of non-coffee exports, particularly petroleum and coal. The fiscal balance, however, turned into a deficit of 1.8 percent of GDP despite rising revenues as a result of the tax reform. Unemployment declined sharply to 10.1 percent in December (from 14-15 percent in 1985). After difficult negotiations the government succeeded in obtaining a US$1 billion "Concorde" loan from the commercial banks.

The strong growth during the period of 1986-87 was accompanied by a rising inflation. For 1988, the rate of inflation (based on the consumer price index) rose to 28.1 percent from the 21-22 percent average inflation rate recorded in the previous five years. Food prices rose sharply because of a drought and higher restrictions on food imports. Non-food prices also rose due to the emergence of capacity bottlenecks and high credit expansion. As inflation rose, interest rates followed. Under strong pressure from the private sector, the authorities put temporary controls on interest rates (removed in January 1989) and adopted measures to inject more liquidity into the economy at the end of August, 1988. Because of the earlier tight liquidity, more restrictive quotas on coffee exports, lower oil prices, and increased guerrilla attacks on fuel oil pipelines, the economy slowed down considerably, growing at only 3.6 percent. The current account deficit rose to 1.0 percent of GDP while the public sector deficit rose slightly to 2.2 percent of GDP. However, non-traditional exports continued to perform well.

The signs of weakness in the economy continued into 1989. Growth in domestic demand decelerated. Activity in industry, commerce and construction was sluggish. The strong growth area in the economy was agriculture, on account of good weather and stimulative policy measures to reduce food prices. The assassination of presidential candidate Luis Carlos Galan by drug traffickers in August, which triggered an intensified drive against the traffickers by the government, and the demise of the International Coffee Agreement (ICA) in July, which cut the price of Colombia's coffee in half and sharply dimmed the coffee export outlook over the medium term, have both cast a shadow on Colombia's economic outlook for 1990 and beyond (see below). For 1989, economic growth decelerated to 3.2 percent, and inflation was reduced by only 2 percentage points to 26.1 percent despite a sharp deceleration in food prices. Higher petroleum revenues, continued brisk growth of non-traditional exports, a recovery in transfers and a sharp slowdown in import growth resulted in a near equilibrium in the current account. The urban unemployment fell further to below 10 percent in recent months due to the decline in the labor participation rate. After months of tough negotiations, the government concluded a US$1.645 billion financial package (the Challenger loan) with commercial banks which will allow Colombia to roll over the amortization payments on its commercial bank loans falling due for the period 1989-90. The longer-than-expected negotiations of the Challenger loan slowed the execution of public investment projects to be financed by the loan and helped in restraining the fiscal deficit to 2.1 percent of GDP.

Near and Medium-Term Outlook

The government has acted quickly to define a 1989-90 economic program designed to adjust to the impact of the "cafe-droga" shock. It is estimated that in 1990 the lost export revenues from coffee, tourism receipts and private (drug-related) transfers could total some $600 million to 900 million (or about 2 percent of GDP). The main instruments used in adjustment are: (i) a devaluation of 6-8 percent in the real exchange rate by end-1990 (in addition to several percent already achieved since August); (ii) enhanced fiscal austerity through a variety of measures, viz. eliminating major subsidies in the coffee sector and enforcing a decline in the real domestic coffee price, holding down public sector wage increases to below expected inflation for 1990, postponing public sector investments in selected areas, and raising gasoline prices to fully adjust for inflation in 1989. These measures together represent a reduction in the consolidated non-financial public sector deficit by about 1.5 percent of GDP from what it would otherwise have been because of the external shock. For 1990, the policy goal is to achieve GDP growth of 3 percent and keep the rate of inflation at 26 percent. The current account deficit is projected to rise to 1.9 percent of GDP in 1990 while the fiscal deficit is to be constrained to 2.0-2.5 percent of GDP.

Rising inflation, stagnating economic growth and the high exposure of the Colombia economy to external shocks have prompted Colombian authorities to rethink their long pursued development strategy of import substitution. In early 1990, the government thus formulated a medium-term economic program entitled "Programa de Modernización de la Economía Colombiana" extending beyond economic stabilization measures of the 1989-90 program to structural adjustment measures in trade, finance and infrastructure. This could be the turning point of Colombia's development path which for years has been marked by steadily declining productivity. The major focus of this program is to open up the economy to external competition and to raise the efficiency of the public sector with the objective of raising the dynamism and productivity growth of the economy. The medium-term outlook of the economy depends upon how vigorous the implementation of this structural adjustment program will be. The continuation of Colombia's long held tradition of "gradualism" would probably restore economic growth to the range of 4-5 percent by 1994 and reduce inflation to 20-22 percent while maintaining external equilibrium. A bolder and speedier reform approach could raise economic growth to above 5.5 percent and reduce inflation to below 20 percent over the medium-term.

In preparing this structural adjustment program, the government is explicitly paving the way for opening negotiations with commercial banks to seek, at a minimum, the refinancing of amortization payments falling due during 1991-92, amounting to US$1.3 billion. After 1992, as amortization payments due to commercial banks fall to about one half of their peak in 1989, Colombia should be able to leave its debt problems behind.

External Debt

Colombia's total external debt is low by Latin American standards (41.4 percent of GDP in 1989). Total external debt outstanding and disbursed was about US$17.0 billion as of the end of 1989. Colombia's external debt increased sharply from US$12 billion in 1984 to US$17 billion in 1987 primarily because of the depreciation of the U.S. dollar versus other currencies and because of the disbursements of loans contracted during 1981-87 period.

These relatively strong indicators are the result of prudent economic and debt management. Colombia has always been current on its debt service obligations. Over the medium term, helped by the strong growth in petroleum, coal, other mineral and non-traditional exports (due to the economic adjustment program) and by the passing of the debt service bulge, the main indicators are expected to strengthen sharply.

COLOMBIA

Mid-1988 Population (mils.)	30
1988 Per Capita GNP in US$:	1,180

	A. Shares of Gross Domestic Product *(from current price data)*						B. Growth Rates(% per annum) *(from constant price data)*				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.4	5.0	3.4	3.6	3.3
Net Indirect Taxes	5.7	6.8	10.0	11.7	..	..	..	..	..	..	..
Agriculture	26.7	24.1	19.4	18.1	16.9	16.8	4.3	4.8	2.4	3.0	4.9
Industry	26.8	30.5	31.6	35.1	35.3	36.4	6.8	3.9	5.1	2.4	3.1
(of which Manufacturing)	18.5	22.7	23.3	20.3	21.0	20.3	7.2	4.6	2.9	2.3	3.4
Services	46.6	45.3	49.1	46.9	47.9	46.8	7.1	5.9	2.7	4.9	2.7
Resource Balance	1.0	1.0	0.6	4.0	2.1	4.2	..	..	..	..	..
Exports of GNFS	11.2	15.2	16.2	16.9	16.1	18.0	5.5	5.7	6.9	3.5	6.8
Imports of GNFS	10.2	14.2	15.6	12.9	14.0	13.8	8.4	7.2	-1.2	-3.1	8.1
Total Expenditures	99.0	99.0	99.4	96.0	97.9	95.8	6.8	5.2	2.2	2.8	3.2
Total Consumption	82.7	80.7	80.3	76.0	76.0	76.2	6.8	5.2	2.8	1.5	5.9
Private Consumption	74.8	71.3	70.2	66.1	66.0	66.0	6.6	5.1	2.7	1.5	5.2
General Government	7.9	9.5	10.1	9.8	10.0	10.2	8.8	6.1	3.2	1.8	11.3
Gross Domestic Investment	16.3	18.3	19.1	19.8	21.9	19.6	6.7	5.3	0.3	7.7	-6.6
Fixed Investment	13.9	15.8	16.8	17.2	18.9	18.7	7.5	5.2	2.5	18.0	..
Changes in Stocks	2.4	2.5	2.3	2.6	3.0	0.9	..	..	..	..	..
Gross Domestic Saving	17.3	19.3	19.7	23.8	24.1	23.8	6.4	6.1	4.7	-2.6	3.5
Net Factor Income	-2.4	-2.1	-0.4	-6.4	-6.5	..	..	..	..	..	..
Net Current Transfers	0.0	0.1	0.5	2.8	2.5	2.8	..	..	..	..	..
Gross National Saving	14.9	17.3	19.8	20.2	20.1	..	7.0	7.8	2.7	-5.0	10.7

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	3,074	5,027	7,042	8,824	9,146	9,444	6.4	5.0	3.4	3.6	3.3
Capacity to Import	436	788	1,187	1,496	1,273	1,557	8.0	8.5	5.5	-14.9	22.3
Terms of Trade Adjustment	-57	49	133	0	-275	-95	..	..	..	..	..
Gross Domestic Income	3,017	5,076	7,175	8,824	8,871	9,348	6.8	5.4	3.2	0.5	5.4
Gross National Product	2,972	4,881	6,979	8,262	8,566	8,915	6.5	5.3	2.6	3.7	4.1
Gross National Income	2,915	4,930	7,112	8,262	8,291	8,820	6.9	5.7	2.4	0.3	6.4

	(1987 = 100)						*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	24.9	68.2	81.1	100.0	128.1	161.2	10.2	24.0	21.7	28.1	25.8
Wholesale Prices (IFS 63)	23.4	65.6	80.1	100.0	128.3	164.5	10.8	24.9	23.1	28.3	28.2
Implicit GDP Deflator	22.4	62.9	81.0	100.0	127.2	159.8	10.7	24.3	24.1	27.2	25.6
Implicit Expenditures Defl.	22.0	62.8	78.1	100.0	130.8	160.9	10.3	23.8	24.4	30.8	23.0

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.5	2.0	1.9
Labor Force	2.2	4.0	3.6
Gross Natl. Income p.c.	4.2	3.7	0.5
Private Consumption p.c.	4.0	3.1	0.8
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.3	1.4	-0.3
Marginal Savings Rates:			
Gross National Saving	21.2	24.9	32.2
Gross Domestic Saving	22.2	20.7	43.7
ICOR (period averages):	..	4.0	6.1

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1986*
Agriculture	44.7	37.7	34.2	31.2
Industry	21.4	23.4	23.5	24.6
Services	33.9	38.9	42.3	44.2
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.BEV.COFFEE	97.0	85.8	100.9	100.0	86.7	94.5	2,208	1,702	2,742	1,633	1,621	1,462
X.GOLD	..	..	145.0	100.0	61.2	103.2	310	365	460	385	235	365
X.PETROLEUM	..	..	65.1	100.0	98.7	113.3	100	409	619	1,342	988	1,412
X.COAL	..	..	57.3	100.0	112.4	149.4	10	409	201	263	304	509
Manufactures	..	..	100.8	100.0	115.3	126.1	..	651	902	1,022	1,218	1,400
Residual	..	..	90.0	100.0	114.2	122.0	1,668	246	509	611	798	894
Total Exports FOB	..	..	93.7	100.0	95.9	108.9	4,296	3,782	5,433	5,255	5,165	6,041
F. Merchandise Imports												
Food												
Fuel and energy	..	..	..	..	..	..	530	466	..	..	..	..
Other Consumer Goods	..	..	85.5	100.0	99.3	126.6	570	345	380	488	515	668
Other Intermed. Goods	..	..	101.7	100.0	118.1	119.0	1,727	1,697	1,784	1,925	2,413	2,476
Capital goods	..	..	98.9	100.0	108.3	106.9	1,456	1,165	1,245	1,381	1,587	1,596
Total Imports CIF	..	..	98.6	100.0	112.1	115.6	4,283	3,673	3,409	3,794	4,515	4,740

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	107.9	100.0	103.1	106.2
Merch. Imports Price Index	..	..	91.2	100.0	106.2	108.1
Merch. Terms of Trade	..	..	118.4	100.0	97.1	98.2

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	5,317	4,476	6,428	6,421	6,618	7,461
Merchandise (FOB)	3,986	3,650	5,331	5,255	5,164	6,041
Non-Factor Services	1,331	826	1,097	1,167	1,453	1,420
Imports of Goods & NFS	5,443	5,093	5,086	5,751	6,376	6,786
Merchandise (FOB)	4,283	3,673	3,409	3,793	4,515	4,740
Non-Factor Services	1,159	1,420	1,677	1,958	1,860	2,045
Resource Balance	-126	-617	1,342	670	242	675
Net Factor Income	-245	-1,653	-1,744	-1,692	-1,586	-1,773
(interest per DRS)	310	867	978	1,184	1,213	1,399
Net Current Transfers	164	455	801	1,001	964	1,108
(workers' remittances)	68	105	393	616	448	..
Curr. A/C Bal. before Off. Transf.	-207	-1,815	399	-21	-380	11
Net Official Transfers	1	6	-16	0	0	0
Curr. A/C Bal. after Off. Transf.	-206	-1,809	383	-21	-380	11
Long-Term Capital Inflow	815	2,350	2,469	182	798	661
Direct Investment	51	1,016	642	287	186	539
Net LT Loans (DRS data)	808	1,331	1,635	-101	625	341
Other LT Inflow (Net)	-44	4	192	-4	-13	-219
Total Other Items (net)	309	-386	-1,556	-195	-57	-615
Net Short Term Capital	141	-113	-1,305	-211	106	-81
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	168	-273	-251	11	-163	-534
Changes in Net Reserves	-919	-155	-1,296	33	-361	-57
Net Credit from the IMF	..	..	..	0	0	0
Other Reserves Changes	-919	-155	-1,296	33	-361	-57
As Share of GDP:						
Resource Balance	-0.4	-1.8	3.8	1.8	0.6	1.7
Interest Payments	0.9	2.5	2.8	3.3	3.1	3.5
Current Account Balance	-0.6	-5.2	1.1	-0.1	-1.0	0.0
Memorandum Items:						
Reserves excl. Gold (mil. US$)	4,831	1,595	2,696	3,086	3,248	3,616
Reserves incl. Gold (mil. US$)	6,474	2,197	3,481	3,416	3,700	3,862
Official X-Rate (LCUs/US$)	47.28	142.31	194.26	242.61	299.17	382.57
Index Real Eff. X-R Base 1980	100.00	91.30	68.05	60.67	58.53	56.43
GDP (millions of current US$)	33,400	34,895	34,943	36,373	38,874	39,407

I. Budget (Central Adm.)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	9.0	9.7	10.7	10.4	10.2	17.4	46.8	42.7	29.5	..
Current Expenditures	..	8.8	8.8	8.8	9.3	9.4	27.0	36.5	29.1	41.5	..
Current Budget Balance	..	0.2	0.9	1.9	1.0	0.8	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	2.8	2.2	2.4	2.5	2.5	21.1	5.6	38.8	32.2	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-2.7	-1.3	-0.5	-1.4	-1.7	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	..	1.0	1.6	-0.5	1.0	0.6	..	..	..	..	..
Domestic Non-Bank Financing	..	1.6	-0.2	1.0	0.5	1.1	..	..	..	..	..
Domestic Bank Financing	..	..	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	766	1,199	1,618	-40	611	464	4,089	9,574	12,182	13,829	13,854	14,051
Official Creditors	277	938	668	232	335	228	2,393	5,300	6,840	8,300	8,124	8,136
Multilateral	223	620	437	217	293	191	1,350	3,409	4,561	5,773	5,613	5,653
of which IBRD	152	425	277	66	147	29	991	2,399	3,261	4,111	3,899	3,809
of which IDA	0	0	-1	-1	-1	-1	21	18	17	17	16	15
Bilateral	54	318	231	16	42	37	1,043	1,891	2,279	2,527	2,512	2,483
Private Creditors	489	261	950	-273	277	236	1,696	4,275	5,342	5,529	5,729	5,915
Suppliers	20	75	-19	-2	11	104	210	601	635	680	667	755
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	42	131	17	-61	14	-123	515	1,568	1,585	1,524	1,538	1,415
Total LT	808	1,331	1,635	-101	625	341	4,604	11,142	13,767	15,353	15,392	15,466
IMF Credit	0	0	0	0	0	0	0	0	0	0	0	0
Net Short-Term Capital	141	-113	-1,305	-211	106	-81	2,337	3,099	1,597	1,654	1,609	1,614
Total incl. IMF & Net ST	949	1,218	330	-312	731	260	6,941	14,241	15,364	17,007	17,001	17,080

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	21.52	21.53	23.69	26.78	25.33	24.62
2. IDA as % of Total	0.46	0.17	0.13	0.11	0.10	0.10
3. IBRD+IDA as % of Total	21.98	21.69	23.82	26.88	25.43	24.72
Share of LT Debt Service						
1. IBRD as % of Total	25.14	19.61	23.28	23.79	22.66	16.84
2. IDA as % of Total	0.07	0.03	0.06	0.03	0.03	0.02
3. IBRD+IDA as % of Total	25.21	19.64	23.34	23.82	22.69	16.86
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	77.65	236.02	196.47	212.36	210.47	199.82
2. IMF Credit/Exports	0.00	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/Exports	39.42	65.64	22.79	22.88	22.00	20.85
4. LT+IMF+ST DOD/Exports	117.07	301.66	219.26	235.24	232.47	220.67
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	13.78	31.93	39.40	42.21	39.59	39.25
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/GDP	7.00	8.88	4.57	4.55	4.14	4.10
4. LT+IMF+ST DOD/GDP	20.78	40.81	43.97	46.76	43.73	43.34
Debt Service /Exports						
1. Public & Guaranteed LT	8.92	29.99	26.38	33.02	37.70	44.23
2. Private Non-guaranteed LT	0.74	4.36	3.58	2.89	2.41	4.52
3. Total Long-Term Debt Service	9.66	34.34	29.96	35.91	40.12	48.75
4. IMF Repurchases+Serv. Chgs.						
5. Interest only on ST Debt	6.38	7.60	2.42	1.16	2.20	2.38
6. Total (LT+IMF+ST Int.)	16.04	41.95	53.81	37.07	42.93	51.13

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Comoros

The Federal Islamic Republic of Comoros became independent in 1975. With a GNP per capita of US$440 in 1988 and a population of 442,000, the Comoros is classified by the United Nations among the least developed countries. It faces structural problems that hinder economic development: (a) small domestic market; (b) remoteness of the country and its segmentation over several islands; (c) limited natural resources; (d) dependence of the economy on three export commodities facing a volatile world demand; (e) explosive population growth at a rate of 3.3 percent a year; (f) high unemployment, with a large surplus of unskilled manpower; and (g) serious environmental degradation.

The Comoros is predominantly a rural economy, highly dependent on external trade and assistance. More than 35 percent of GDP is derived from agriculture and 25 percent from trade. Because of rudimentary agricultural practices and an inadequate marketing system, food production is insufficient to meet local requirements, and the country has been importing increasing quantities of meat and rice. The manufacturing sector, which contributes less than 5 percent to GDP, consists primarily of the processing of export crops and a few small factories supplying the domestic market. Tourism is still at an incipient stage. With the completion of several infrastructure projects in 1985, the transport system has been improved, but inter-island shipping remains inadequate.

Recent Economic Developments

Despite a relatively rapid economic growth in the early 1980s (over 4 percent a year), achieved mainly through a high level of externally-financed investment, the economy has experienced structural and financial problems that have worsened in the last few years. Real GDP growth slowed gradually to an estimated 0.9 percent in 1988, leading to a severe deterioration in per capita income. Growth in agriculture and manufacturing have been unable to offset the slowdown in the construction activities following the completion of major investments in infrastructure under the Interim Development Plan (1983-86). The softening of export prices, combined with continued strong demand for imported foodstuffs, petroleum products and consumer goods, has led to large external current account deficits which reached about 27 percent of GDP in 1988 (or 7 percent of GDP if grants are included.) Although data for 1989 are not yet adequate for a full economic assessment, it appears that the economy suffered a setback due to a bad vanilla crop caused by the mildew disease.

Central government finances are in structural difficulty because of the weakness of the revenue base, the prevailing undercollection of taxes, the instability of imports and exports, and the steady increase in expenditure. Although the overall budgetary deficit (excluding grants) declined from 38 percent of GDP in 1985 to 23 percent in 1988, this mainly reflected a sharp cutback in capital expenditures in response to a fall in foreign borrowings. The treasury remains illiquid: there are frequent delays in meeting civil servants' payroll, and domestic and external arrears are accumulating. The situation of the public enterprises has also become a cause for concern due to lack of sound financial accounts and weak management. The pricing policies and the management of the import monopolies, including the use of their surpluses, have led to inefficient resource mobilization in the public sector.

As a consequence of the surge in public investment in the early 1980s, total debt outstanding and disbursed increased rapidly from US$129 million in 1985 to US$188 million at the end of 1988 (over 90 percent of GDP). About 16 percent of the debt is owed to countries and institutions participating in the Paris Club or the London Club. The rest is due to Arab (41 percent) and international institutions (40 percent). Although most of the debt was contracted on concessional terms, scheduled debt service obligations rose steadily from US$2.6 million in 1984 to about US$10 million in 1988, i.e., 25 percent of exports of goods and non-factor services. Arrears on external debt service obligations had accumulated.

Adjustment Initiatives

Against the background of severe deterioration in the economic and financial situation, the government has over the past few years implemented various financial and structural measures to strengthen the public finances and to promote growth. As regards public finances, the government has intensified efforts to improve tax collection through reorganization of the customs and tax offices and abolition of certain tax exemptions. On the expenditure side, salaries of civil servants have been cut across the board by 5 percent in 1989, housing and transport allowances have been reduced, new recruitment has been limited, and voluntary departures of civil servants have been implemented. Regarding debt service obligations, the external arrears of the post office and the domestic arrears accumulated through end-1986 have been consolidated and rescheduled. As regards the parastatal sector, the government has taken concrete steps toward the reform of public enterprises. Rehabilitation plans for the post office and the electricity company (EEDC) have been drawn up with French assistance, and some restructuring of other entities has commenced. To improve the transparency in the use of funds, surpluses from the rice importing monopoly (ONICOR) and the petroleum import company (SCH) have been budgetized. In addition, decisions have been made to liquidate the cigarette importing monopoly (STAC) and to privatize COMOTEL. All major enterprises are now subject to external audits.

To stimulate export crop production, the government has raised the producer price for vanilla and reduced export taxes on vanilla and cloves. The government has initiated the preparation of an integrated development strategy in agriculture with UNDP assistance. This study, expected to be completed by end-1990, would provide a basis for the formulation of policies conducive to an improvement in agricultural production and marketing. The government has started to take some measures to prevent further soil erosion and has prepared an action program for the Island of Anjouan. In family planning, there has been a major breakthrough in the attitude of the Comorian authorities: the religious authorities are now encouraging the spacing of births and emphasizing the need to control population growth. In education and training, a program is under way with IDA and bilateral support to upgrade manpower skills.

Medium-Term Outlook

The Comoros' economic prospects are limited. However, some growth is possible if the government adopts strict budgetary discipline, provides appropriate incentives to stimulate production and exports, and exercises sound judgements in selecting investment projects. Should the government adopt a series of measures to encourage actively rehabilitation and diversification of cash crops and promote export-oriented industrialization, GDP growth could gradually accelerate from the current low level to permit a slight growth of per capita income. Investment would rebound from an estimated 16 percent of GDP in 1988, assuming in particular a significant increase in private investment.

The Comoros' fiscal and balance of payments position for the coming years will remain difficult and highly dependent on substantial inflows of concessionary assistance in the form of grants or loans. These inflows will need to be complemented by consolidation and restructuring of accumulated external arrears and considerable debt relief or exceptional financing to permit the projected external financing gap to be closed.

In the event that a reform program is agreed, it will be necessary to organize a donors' meeting to mobilize quick-disbursing assistance in support of the program. The UNDP has indicated its willingness to assist the government in organizing a Round Table meeting, tentatively planned for end-1990.

COMOROS

Mid-1988 Population (mils.)	0.442
1988 Per Capita GNP in US$:	440

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988p*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988p*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	2.5	0.9	..
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	..
Agriculture	..	..	..	35.8	..	..	..	..	4.8	2.8	..
Industry	..	..	..	14.1	..	..	..	..	-2.4	-11.4	..
(of which Manufacturing)	..	..	..	3.6	..	..	..	..	5.0	3.4	..
Services	..	..	..	50.1	..	..	..	..	2.6	2.3	..
Resource Balance	..	..	..	-32.5	-26.4	..	..	..	..	..	..
Exports of GNFS	..	..	..	10.8	15.4	..	..	..	5.0	-5.2	..
Imports of GNFS	..	..	..	43.3	41.8	..	..	..	0.0	-8.7	..
Total Expenditures	..	..	..	132.5	126.4	..	..	..	1.3	-2.0	..
Total Consumption	..	..	..	109.2	110.5	..	..	..	5.3	5.1	..
Private Consumption	..	..	..	82.7	..	..	..	..	..	..	..
General Government	..	..	..	26.5	..	..	..	..	..	..	..
Gross Domestic Investment	..	..	..	23.3	15.9	..	..	..	-13.5	-35.4	..
Fixed Investment	..	..	..	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	..	..	-9.2	-10.5	..	..	..	..	..	..
Net Factor Income	..	..	..	-0.6	-0.7	..	..	..	..	..	..
Net Current Transfers	..	..	..	0.5	0.3	..	..	..	..	..	..
Gross National Saving	..	..	..	-9.3	-10.9	..	..	..	..	..	..
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988p*	*1989*					
Gross Domestic Product	..	..	..	60	60	..	..	..	2.5	0.9	..
Capacity to Import	..	..	..	6	9	..	..	..	3.6	35.2	..
Terms of Trade Adjustment	..	..	..	0	3	..	..	..	..	..	..
Gross Domestic Income	..	..	..	60	63	..	..	..	2.1	4.9	..
Gross National Product	28	44	45	59	60	..	5.2	0.7	3.4	0.7	..
Gross National Income	..	..	..	59	62	..	..	..	2.0	6.2	..

C. Price Indices	*1980*	*1985*	(1987 = 100) *1986*	*1987*	*1988p*	*1989*	Inflation Rates (% p.a.) *1965-73*	*1973-80*	*1980-88*	*1988p*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	..	90.0	96.1	100.0	102.8	..	..	..	6.0	2.8	..
Implicit Expenditures Defl.	..	91.6	94.1	100.0	100.6	..	..	..	4.7	0.6	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.3	2.2	3.3
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	-1.3
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	..	..	..
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	87.9	85.5	83.0	..
Industry	4.2	5.0	5.8	..
Services	7.9	9.5	11.3	..
Total	100.0	100.0	100.0	100.0

Notes:
(p) preliminary data

E. Merchandise Exports	*Volume Index*						*Value at Current Prices (millions US$)*					
	1980	*1985*	*1986*	*1987*	*1988p*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988p*	*1989*
Vanilla	..	284.9	403.7	100.0	392.0	..	..	11	16	4	14	..
Cloves	..	55.7	38.2	100.0	33.9	..	..	3	2	5	2	..
Ylang Ylang	..	110.4	104.6	100.0	126.4	..	..	1	2	2	2	..
COPRA	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..			1	1	..
Total Exports FOB	..	..	..	..	..	..	..	15	20	12	19	..
F. Merchandise Imports												
Food	..	86.3	106.4	100.0	123.9	..	..	6	7	5	11	..
Fuel and energy	..	57.1	92.2	100.0	118.7	..	..	4	5	8	4	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	3	4	5	5	..
Capital goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports CIF	..	..	..	..	..	..	..	40	43	56	55	..

G. Merchandise Terms of Trade	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	*US$ millions (at current prices)*					
	1980	*1985*	*1986*	*1987*	*1988p*	*1989*
Exports of Goods & NFS	13	20	27	26	32	..
Merchandise (FOB)	11	16	20	12	21	..
Non-Factor Services	2	4	7	14	11	..
Imports of Goods & NFS	34	64	71	88	87	..
Merchandise (FOB)	22	28	28	46	43	..
Non-Factor Services	12	36	42	42	44	..
Resource Balance	-21	-44	-44	-62	-55	..
Net Factor Income	1	-1	-2	-1	-1	..
(interest per DRS)	0	2	1	1	0	0
Net Current Transfers	0	-1	-2	1	1	..
(workers' remittances)	2	4	5	7	..	..
Curr. A/C Bal. before Off. Transf.	-20	-46	-47	-62	-55	..
Net Official Transfers	11	32	32	39	44	..
Curr. A/C Bal. after Off. Transf.	-9	-14	-16	-23	-11	..
Long-Term Capital Inflow	-17	-21	-20	-8	8	..
Direct Investment	..	..	..	8	..	..
Net LT Loans (DRS data)	13	22	24	13	8	9
Other LT Inflow (Net)	-30	-42	-44	-28	0	..
Total Other Items (net)	22	41	40	40	3	..
Net Short Term Capital	38	39	42	37	0	..
Capital Flows N.E.I.	0	0	0	0	0	..
Errors and Omissions	-15	2	-2	3	3	..
Changes in Net Reserves	4	-6	-3	-9	0	..
Net Credit from the IMF	..	..	..	..	..	..
Other Reserves Changes	4	-6	-3	-9	0	..
As Share of GDP:						
Resource Balance	..	-38.5	-26.8	-31.2	-26.4	..
Interest Payments	..	1.3	0.5	0.5	0.1	..
Current Account Balance	..	-40.3	-29.1	-31.3	-26.7	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	6	12	18	31	24	..
Reserves incl. Gold (mil. US$)	6	12	18	31	24	..
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	..	..	..	..	..	..
GDP (millions of current US$)	..	115	162	199	207	..

Notes:

(p) preliminary data

I. Central Government Budget			*Share of GDP (%)*						*Growth Rates*		
	1980	*1985*	*1986*	*1987*	*1988p*	*1989*	*1982-84*	*1986*	*1987*	*1988p*	*1989*
Current Receipts	..	12.6	14.7	12.0	14.9	..	..	27.2	-13.2	28.4	..
Current Expenditures	..	32.5	33.7	31.9	32.4	..	..	13.4	1.1	4.7	..
Current Budget Balance	..	-19.9	-19.0	-19.9	-17.5	..	..	4.6	12.3	-9.2	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	18.4	13.2	5.4	5.2	..	..	-11.3	-62.6	0.7	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-38.3	-32.2	-25.3	-22.7	..	..	-7.9	-18.8	-7.5	..
Official Grants	..	21.8	20.6	21.7	21.5	..	..	3.0	5.7	2.3	..
External Borrowing (net)	..	15.7	11.4	3.5	1.3	..	..	-20.7	-67.3	-62.2	..
Domestic Non-Bank Financing	..	1.0	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	..	-0.2	0.2	0.1	-0.1	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios			*Net Disbursements (US$ millions)*						*Debt Outstanding & Disbursed (US$ millions)*			
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Public & Publicly Guar. LT	13	22	24	13	8	9	43	129	159	188	188	194
Official Creditors	13	22	24	13	8	9	43	129	159	188	187	194
Multilateral	6	14	18	7	2	2	21	69	92	109	107	111
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	2	6	5	4	2	1	4	20	26	33	34	35
Bilateral	7	8	6	6	6	6	21	60	67	79	80	83
Private Creditors	0	0	0	0	0	0	0	0	0	0	0	0
Suppliers	0	0	0	0	0	0	0	0	0	0	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	13	22	24	13	8	9	43	129	159	188	188	194
IMF Credit	0	0	0	0	0	0	0	0	0	0	0	0
Net Short-Term Capital	38	39	42	37	0	..	1	4	8	15	11	15
Total incl. IMF & Net ST	51	61	65	50	8	..	44	133	166	203	199	209

Bank and IDA Ratios	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	9.77	15.07	16.13	17.63	18.08	17.85
3. IBRD+IDA as % of Total	9.77	15.07	16.13	17.63	18.08	17.85
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	5.26	10.53	15.38	100.00	100.00
3. IBRD+IDA as % of Total	0.00	5.26	10.53	15.38	100.00	100.00
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	274.22	523.65	476.58	541.89	556.38	..
2. IMF Credit/Exports	0.00	0.00	0.00	0.00	0.00	..
3. Short-Term Debt/Exports	6.38	16.19	22.82	43.88	33.53	..
4. LT+IMF+ST DOD/Exports	280.60	539.84	499.41	585.77	589.91	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	..	112.64	97.67	94.54	90.51	..
2. IMF Credit/GDP	..	0.00	0.00	0.00	0.00	..
3. Short-Term Debt/GDP	..	3.48	4.68	7.66	5.45	..
4. LT+IMF+ST DOD/GDP	..	116.12	102.35	102.19	95.97	..
Debt Service /Exports						
1. Public & Guaranteed LT	1.91	7.69	5.71	3.75	0.89	..
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	..
3. Total Long-Term Debt Service	1.91	7.69	5.71	3.75	0.89	..
4. IMF Repurchases+Serv. Chgs.						..
5. Interest only on ST Debt	0.64	1.21	0.90	1.44	1.48	..
6. Total (LT+IMF+ST Int.)	2.55	8.90	6.61	5.20	23.44	..

Notes:

(p) preliminary data

Congo

The per capita income of the People's Republic of the Congo, at US$900 in 1988, is one of the highest in Sub-Saharan Africa. The Congo's position as a middle-income country reflects a dramatic rise in GDP after oil production began in the late sixties and its favorable location as a regional center in the pre-Independence period. The middle-income classification disguises, however, a number of structural imbalances that existed long before the oil boom.

As the administrative capital of French Equatorial Africa prior to independence, Congo became the principal center for transit and distribution, handling more than 40 percent of French Equatorial Africa's commerce, transport and banking activity. By the time of independence in 1960 it had become the most heavily service-oriented economy in Sub-Saharan Africa (60 percent of GDP in 1960). Already in 1960, 30 percent of the population lived in urban areas and agriculture accounted for only 23 percent of GDP. Prior to 1973, growth, largely due to timber exports, was modest. With the production of oil for export which began in 1974, the economy grew more rapidly, with real growth averaging 7.5 percent a year between 1974 and 1985.

Oil and Development Policies

The production of crude oil from off-shore reserves did little to alter the structure of the Congolese economy, and in fact served mostly to reinforce its highly urbanized, service orientation. With the rise in oil prices at the end of 1973, oil overtook timber as the most important export product and provided the government with the means to implement a development strategy based almost exclusively on state enterprises. This policy was pursued through a series of nationalizations in the mid-1960s and expanded in the 1970s through the creation of an ambitious system of inefficient large state-owned farms. By 1986, the parastatal sector in the Congo consisted of 88 state enterprises and 15 mixed enterprises in which the government was the majority shareholder; it covered virtually all sectors of the economy. Little attention was given to the provision of services to the smallholder sector. As a result, smallholder agricultural production has stagnated and even declined over the past decade.

Oil revenues and associated borrowing also financed a vast expansion in public and parapublic sector employment. About 80 percent of the jobs created outside the agricultural sector during the period 1974-85 were in the formal sector. Over this period the civil service more than tripled in size, while the remainder of the modern sector (private sector and public enterprises) almost doubled. In addition to the rapid increase in the size of the public and parastatal sector, oil revenues also financed a vast expansion in the educational system, which removed a number of potential workers from the active labor force. The number of students increased at about five times the rate of population growth between 1974 and 1985. More than 20 percent of the population of working age (15 plus years) is in school. Currently about one out of seven active workers is employed by the government or a public enterprise.

Oil and Macroeconomic Imbalances

Highly leveraged oil revenues sustained a pattern of expenditure geared toward high consumption levels and unproductive investment, resulting in financial crises when oil revenues declined. Serious financial imbalances emerged as early as 1972, with the growing accumulation of public enterprises losses. The petroleum boom in 1973/74 temporarily halted the financial deterioration. However, the rapid expansion of current and capital expenditure, combined with a drop in output in the next two years, gave rise once again to large macro imbalances. The situation worsened throughout the mid-to-late seventies but was temporarily halted when the government undertook a stabilization program in 1979.

The second petroleum boom in 1979/80 took the pressure off the stabilization program and set in motion another round of increases in current and capital expenditures. Control over the investment budget was poor, as there were substantial cost overruns and unbudgeted capital expenditures. As capital expenditure increased by 1,100 percent between 1979 and 1982, largely financed by external borrowing on non-concessional terms, the overall budget deficit grew, reaching 12.6 percent of GDP on a commitment basis in 1982.

To reduce the deficit, the government cut the investment budget by 18 percent between 1982 and 1985. This action, combined with the 47 percent increase in oil revenues between 1982 and 1985, reduced the budget deficit to 4.4 percent of GDP by 1985. The deficits were financed externally in part by the accumulation of arrears and non-concessional borrowing. Faced with an unsustainable financial situation, the government entered into discussions with the international financial community which led to IMF support in 1986 and loans from the World Bank, France, and the African Development Bank in 1987. A Paris Club rescheduling was obtained in 1986.

Structural Adjustment, 1986-89

To complement its stabilization program, the government approved a broad framework for a medium-term economic policy reform program in December 1986. Its objective was to restore the competitiveness of the non-oil sectors of the economy and provide the foundation for sustained growth. The major components of the structural adjustment program were: (i) reforming policies in order to stimulate private initiatives in the non-oil sector; (ii) initiating a program of public enterprise rehabilitation and rationalization; (iii) reforming the banking sector; (iv) instituting a sound framework for management of the petroleum sector; (v) realigning public expenditures with available resources, by better programming of investment expenditures and stabilizing the wage bill, and (vi) resource mobilization measures.

To reduce the budget deficit, in 1986 the government cut capital expenditure by 60 percent relative to 1985 and stabilized non-interest current expenditure. However, the budget cuts were swamped by the oil price shock. With the fall in dollar oil prices of almost 50 percent and the 23 percent depreciation of the dollar, the government's oil revenues dropped by about 50 percent and total revenues by 32 percent between 1985 and 1986. The net result was that the budget deficit on a commitment basis rose from 4.4 percent of GDP in 1985 to 8.2 percent in 1986.

In an attempt to get the program back on track, in 1987 the government cut investment spending by another 50 percent and non-interest current expenditure by 8 percent. However, these cuts were not sufficient to reduce the budget deficit, as oil revenues declined by an additional 60 percent between 1986 and 1987. The budget deficit climbed to 12.9 percent. The situation continued to worsen in 1988, despite the reduction in non-interest current expenditures by a further 4.5 percent. Non-oil revenues dropped as the economic recession continued, and oil revenues fell again by 14 percent. The 1988 budget deficit rose to 18 percent of GDP, financed in large part by the further accumulation of arrears.

With the 80 percent increase in oil revenues, due largely to bonuses paid by the oil companies on the signature of new contracts with the government, the 1989 budget deficit fell to 10.7 percent of GDP. However, this masks a weakening in control over current expenditure. There was an 18 percent budget overrun on non-interest non personnel current expenditures, primarily for off-budget items. From 1987 through 1989, non-interest current expenditure exceeded total revenue. In effect, the government financed its capital investment program through foreign borrowing and capitalized interest payments due. In 1989, as in 1988, the government covered its structural deficit and external debt service payments by contracting commercial bank loans. Between 1988 and 1989, it accumulated additional external arrears. At end 1989, the PPG debt stock was US$3.4 billion, or 153 percent of GDP.[1] Debt service due after rescheduling amounted to 78 percent of government revenues.

One of the major measures of the structural adjustment program was the implementation of a new price setting mechanism in the domestic petroleum sector that would provide government with additional revenues from domestically consumed petroleum productions. This requires a major restructuring of Hydro-Congo, including the privatization of the downstream production activities. The government is currently drawing up the bidding documents for the privatization of Hydro-Congo's distribution network. This should be completed during 1990.

To reduce the salary bill, which in 1987 accounted for 62 percent of revenue and 95 percent of non-oil revenue, the government embarked upon a program of civil service reform. Until 1985, the government guaranteed all university graduates employment in the civil service, with the result that the number of civil servants increased by 77 percent between 1979

1. The stock of PPG debt excludes the share of the debt contracted by foreign oil companies guaranteed by the government. That debt is serviced regularly by the oil companies.

and 1985. The government decreased the size of the civil service (including military personnel) from 73,348 employees at end 1986 to approximately 70,500 in 1989. Civil service salaries have been frozen since 1986. In mid 1988 salaries of political appointees were cut by 10 percent; most perquisites of all employees were cut by 50 percent. The wage bill declined by 6.2 percent between 1987 and 1989. The government also has developed a computerized system for managing civil service employees and reformed the civil service general statute.

To foster the development of private enterprises, the government took a number of measures to liberalize trade. Most importantly, it abolished import licensing on all but thirteen products and the system of restricting imports of certain goods by requiring importers to buy a fixed proportion of the good from domestic producers. The monopoly of the export crop marketing boards was also eliminated, and the monopoly of the timber marketing board was restricted. In addition, the government liberalized the private sector participation in urban transport, legal and medical services and abolished the monopoly on labor hiring in the private sector held by ONEMO, the government-controlled employment agency. This last measure is the first step toward eliminating obstacles to a free labor market, a key factor in stimulating private sector development. The next step is to revise the labor legislation to allow for more flexibility in hiring and firing practices.

The government reorganized its portfolio of public enterprises by liquidating ten enterprises, opening up four enterprises to private sector equity participation, and disengaging completely from three enterprises and partially from eight others. The government implemented financial rehabilitation plans for the six major enterprises and a plan to reduce cross arrears between the enterprises and government. It reduced losses by cutting back unproductive investment and the salary bill. In addition, the government decided to privatize the distribution of refined petroleum products in the context of a far-reaching restructuring of the major domestic petroleum parastatal, Hydro-Congo. Other important measures included the completion of financial audits for twenty-one main public enterprises and staff reduction in the non-priority public enterprises (3,500 departures).

A plan to restructure the banking sector, which was approaching insolvency, and ensure the autonomy of the banks was formulated by the government and implementation of the plan began in 1987. The problems of the sector stem from poor management and excessive lending to inefficient public enterprises to cover their deficits. The financial discipline in the public enterprise sector was weak; between 1982 and 1986, the cumulative operating losses of the public enterprise sector exceeded CFAF 75 billion, 12 percent of GDP in 1986. Since 1987, the government has taken over CFAF 30.1 billion of public enterprise debt vis-à-vis the banking sector.

Despite the adjustment measures taken, the large cuts in government spending and accumulation of domestic arrears plunged the economy into a serious recession, marked by a 150 percent increase in the rate of unemployment between 1986 and 1989. The growth in the non-oil sector of the economy has been negative since 1985. The largest declines were in 1986 and 1987, when real non-oil GDP declined by 9.5 percent and 2.4 percent. However, as government spending stabilized in 1988 and 1989, the rate of decline slowed to 0.5 percent.

The first structural adjustment program laid the groundwork for a dialogue between the government and donors on the fundamental lack of sustainability of the government economic policies. It supported sectoral analysis which provided the basis for designing reform programs, and took difficult initial steps in reorienting economic policy and disengaging government from activities more appropriate to private initiative. On the public finance side, the adjustment program put an end to the expansionary expenditure policies of the past and trimmed back the investment program to a core set of productive projects. A substantial amount of work was done on drawing up restructuring plans for the major public enterprises. Having forged a consensus over the past few years on what ultimately amounts to a fundamental reorientation of basic economic and political philosophy from a welfare state to a market-based economy, the government now intends to put in place a far- reaching economic restructuring program covering the civil service, public enterprises and banking sector as resources become available.

Medium-Term Outlook and Development Strategy

As described in the recently completed five-year Economic and Social Action Plan, the government's objectives for the next phase of its adjustment program are to promote the economic recovery of the non-oil sector of the economy based on private sector initiatives and further develop the conditions for sustained growth. A large share of the oil will be used to finance the costs of restructuring the government's heavy debt burden. The financial straits in which the government now finds itself leave it no choice but to undertake a significant retrenchment of the public and parapublic sector and minimize public enterprise losses. As the

Congo's chief of state has repeatedly stated, the days of the welfare state are over.

The major challenge Congo faces is how to lift the economy out of the recession and stimulate growth in the non-oil sectors in which the country has a long-term comparative advantage, namely forestry and to a lesser extent agriculture. To this end, the government has proposed a change in agricultural strategy with the focus on smallholder farming and development of new systems to harness the growth potential of the agricultural sector. The government is also addressing the need to improve the policy framework, while strengthening environmental protection measures in the forestry sector where substantial growth possibilities exist, in order to attract private sector investment. In view of the debt overhang, the difficulties of raising concessional financing, and limited budgetary resources, private sector investment will need to play a larger role in the future. Stimulating growth, will also require attention to serious rigidities and bottlenecks that inhibit the supply response to a shift in relative prices. These rigidities include the absence of agricultural services resulting in low productivity agriculture; a high cost and very inefficient transport system; a highly regulated labor market; a virtually insolvent banking system; the lack of transparency in the implementation of existing regulations and tax structure; and the near absence of a private sector, suppressed for over two decades. As these constraints are addressed, growth prospects should improve, reversing the substantial decline in per capita income of the previous five years. However, in view of the substantial rigidities and the need to create market institutions, medium-term growth prospects are moderate.

Over the medium term, Congo's debt servicing prospects have improved somewhat due to the increase in oil production forecast from wells currently being developed. These wells are expected to come on-stream in two years and are projected to increase Congo's oil production by about 25 percent and double government revenues relative to the levels achieved in 1989.

To mobilize additional resources, the government intends to improve tax and customs collection and restructure the domestic oil refining-distribution operations. On the expenditure side, progress will be modest, as the investment budget was cut drastically in the first phase of the adjustment program. To reduce the wage bill, the government has decided to lower the retirement age and is preparing a voluntary separation scheme.

In order to protect the education and health sectors, special efforts will be made to ensure adequate funding for human resource development as public expenditure is curtailed. Additional cuts in student scholarships (which currently amount to about 20 percent of the transfer budget) would be compensated for by increased spending on materials and services, which has been compressed over the last few years. In addition, given pressure from population growth (3.0 percent a year, with population estimated at 2.2 million in 1988) and the need to increase access to primary level schooling and basic health services, the share of the government's budget allocated to essential social services can be expected to increase over the medium term. The government has decided to legalize private education, which would reduce pressure in the government budget.

Yet, even with increased oil revenues and a strong adjustment program, exceptional financial assistance will be required to finance the government's reform program. This includes official debt as well as commercial debt restructuring and new financing. As a middle income country, Congo is not yet eligible for the exceptional debt relief schemes developed for the debt-distressed IDA eligible countries which would reduce its debt burden and the need for additional balance of payments support. As its share of commercial debt is relatively small, commercial debt initiatives will not have a major impact on reducing the debt service burden.

CONGO, PEOPLE'S REPUBLIC OF THE

Mid-1988 Population (mils.)	2
1988 Per Capita GNP in US$:	900

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rates(% per annum) (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.5	3.9	4.5	0.5	0.2
Net Indirect Taxes	14.0	10.7	4.9	3.7	4.4	4.0	..	..	..	..	..
Agriculture	19.1	15.7	11.7	11.9	13.7	13.7	4.1	2.1	3.0	2.6	6.0
Industry	18.9	22.1	46.6	35.8	31.2	35.5	8.2	8.7	5.7	-1.8	1.5
(of which Manufacturing)	..	..	7.5	8.7	8.9	8.5	..	..	8.2	-5.0	-0.3
Services	61.9	62.2	41.7	52.3	55.1	50.8	6.7	2.0	4.1	1.7	-2.1
Resource Balance	-17.1	-11.8	-0.1	3.1	1.7	12.9	..	..	..	..	..
Exports of GNFS	36.0	31.6	60.0	41.7	40.4	44.8	15.0	7.0	4.4	6.8	6.2
Imports of GNFS	53.1	43.4	60.1	38.6	38.8	31.9	7.8	-1.7	-3.7	-23.3	-9.8
Total Expenditures	117.1	111.8	100.1	96.9	98.3	87.1	5.2	0.0	0.8	-11.7	-6.4
Total Consumption	94.7	79.8	58.6	77.2	80.9	74.8	3.8	2.5	4.8	-8.7	-0.2
Private Consumption	80.5	62.3	41.0	56.6	59.0	55.4	2.7	2.1	4.4	-10.8	2.4
General Government	14.2	17.5	17.6	20.6	21.9	19.4	7.4	3.7	5.9	-2.9	-6.7
Gross Domestic Investment	22.4	32.0	35.8	19.7	17.4	12.3	9.3	-4.9	-8.3	-23.4	-35.6
Fixed Investment	..	..	32.9	20.9	17.1	13.8	..	..	..	..	..
Changes in Stocks	..	..	2.8	-1.1	0.3	-1.6	..	..	..	..	..
Gross Domestic Saving	5.3	20.2	35.7	22.8	19.1	25.2	9.4	-0.4	-6.0	-28.3	25.4
Net Factor Income	-2.7	-5.6	-9.6	-10.7	-13.2	-13.2	..	..	..	..	..
Net Current Transfers	0.0	-1.4	-3.8	-2.5	-2.1	..	..	..	..	..	..
Gross National Saving	2.7	13.2	22.3	9.7	3.8	..	..	-5.7	-20.4	-71.3	..

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	191	309	453	691	694	696	6.5	3.9	4.5	0.5	0.2
Capacity to Import	84	158	229	288	213	259	8.6	2.4	-1.8	-26.0	21.4
Terms of Trade Adjustment	31	31	20	0	-95	-68	..	..	..	..	..
Gross Domestic Income	223	340	473	691	600	627	4.8	2.0	1.8	-13.2	4.6
Gross National Product	186	289	407	616	615	611	6.3	3.3	4.1	-0.2	-0.6
Gross National Income	217	320	427	616	520	543	4.6	1.3	1.2	-15.6	4.4

			(1987 = 100)				*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	56.1	95.5	97.8	100.0	103.7	..	3.4	10.5	7.7	3.7	..
Wholesale Prices (IFS 63)	54.0	92.5	96.0	100.0	102.6	..	3.4	12.2	8.4	2.6	..
Implicit GDP Deflator	79.6	131.9	93.4	100.0	95.2	104.0	4.9	10.0	0.9	-4.8	9.2
Implicit Expenditures Defl.	76.2	105.5	105.8	100.0	110.0	113.9	5.7	12.5	3.3	10.0	3.5

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.5	3.0	3.4
Labor Force	..	..	..
Gross Natl. Income p.c.	2.0	-1.7	-2.2
Private Consumption p.c.	0.2	-0.9	0.9
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.2	-0.4	-0.8
Marginal Savings Rates:			
Gross National Saving	34.0	63.3	-88.3
Gross Domestic Saving	44.6	82.2	-42.6
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	66.0	64.2	62.4	..
Industry	11.1	11.5	11.9	..
Services	22.9	24.3	25.7	..
Total	100.0	100.0	100.0	100.0

	Volume Index						*Value at Current Prices (millions US$)*					
E. Merchandise Exports	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	..	..	..	..	..
Total Exports FOB	..	..	..	..	..	..	..	..	..	..	..	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	..	..	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports CIF	..	..	..	..	..	..	..	..	..	..	..	..

G. Merchandise Terms of Trade	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

	US$ millions (at current prices)					
H. Balance of Payments	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Exports of Goods & NFS	1,021	1,220	774	974	911	..
Merchandise (FOB)	911	1,145	671	877	816	..
Non-Factor Services	111	75	103	97	94	..
Imports of Goods & NFS	1,025	1,156	1,166	952	950	..
Merchandise (FOB)	545	630	511	420	444	..
Non-Factor Services	480	526	655	532	506	..
Resource Balance	-4	64	-392	22	-39	..
Net Factor Income	-162	-228	-226	-256	-302	..
(interest per DRS)	42	120	73	35	75	71
Net Current Transfers	-64	-37	-41	-56	-46	..
(workers' remittances)	1	3	3	7	..	..
Curr. A/C Bal. before Off. Transf.	-230	-202	-659	-290	-388	..
Net Official Transfers	63	40	60	67	60	..
Curr. A/C Bal. after Off. Transf.	-167	-161	-599	-223	-327	..
Long-Term Capital Inflow	242	28	-56	173	40	..
Direct Investment	40	13	22	43	..	..
Net LT Loans (DRS data)	523	282	370	603	223	186
Other LT Inflow (Net)	-321	-267	-448	-473	-183	..
Total Other Items (net)	-17	132	646	44	269	..
Net Short Term Capital	-59	90	597	17	280	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	43	42	49	28	-11	..
Changes in Net Reserves	-59	1	9	5	18	..
Net Credit from the IMF	-10	..	12	2	-1	..
Other Reserves Changes	-49	1	-2	3	19	..
As Share of GDP:						
Resource Balance	-0.2	3.0	-21.2	1.0	-1.8	..
Interest Payments	2.5	5.5	4.0	1.5	3.4	3.1
Current Account Balance	-13.5	-9.3	-35.6	-12.6	-17.5	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	86	4	7	3	4	..
Reserves incl. Gold (mil. US$)	93	8	11	9	8	0
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	100.00	100.16	101.81	101.84	101.89	101.63
GDP (millions of current US$)	1,706	2,161	1,849	2,298	2,220	2,266

I. Budget (specify level)	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Current Receipts	29.2	34.2	35.5	20.1	19.1	..	34.9	-31.5	-39.1	-8.9	..
Current Expenditures	24.1	18.5	37.6	27.8	26.9	..	15.5	34.1	-20.2	-7.2	..
Current Budget Balance	5.1	15.7	-2.0	-7.7	-7.8	..	84.9	-108.4	313.2	-3.0	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	13.6	17.0	10.4	4.4	7.7	..	56.6	-59.7	-54.4	67.1	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-8.4	-1.3	-12.4	-12.1	-15.5	..	..	541.1	5.3	22.5	..
Official Capital Grants	0.9	0.3		0.1	0.1	..	7.0	-90.3	33.3	25.0	..
External Borrowing (net)	8.3	2.3	9.9	10.6	13.9	..	42.1	190.4	15.4	25.2	..
Domestic Non-Bank Financing	2.6	0.5	0.9	0.2	-0.3	..	..	20.0	-81.7	-300.0	..
Domestic Bank Financing	-3.3	-1.8	1.5	1.3	1.9	..	..	-154.9	-8.3	39.8	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	523	282	370	603	223	186	1,421	2,289	3,048	4,169	4,098	4,141
Official Creditors	52	48	84	202	154	162	637	808	1,299	1,940	2,012	2,102
Multilateral	4	27	22	55	96	91	102	245	299	397	466	538
of which IBRD	-3	10	9	17	47	6	39	58	82	120	154	156
of which IDA	1	3	2	1	1	0	22	67	70	74	74	74
Bilateral	49	21	62	147	58	71	535	563	1,000	1,542	1,547	1,564
Private Creditors	471	234	286	401	69	24	784	1,481	1,749	2,230	2,086	2,039
Suppliers	-1	52	7	67	5	-12	166	156	151	214	194	176
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	523	282	370	603	223	186	1,421	2,289	3,048	4,169	4,098	4,141
IMF Credit	-3	-2	8	-3	-3	-3	21	10	19	19	15	12
Net Short-Term Capital	-59	90	597	17	280	..	244	684	707	937	650	895
Total incl. IMF & Net ST	461	370	975	616	500	..	1,686	2,983	3,774	5,125	4,763	5,047

Bank and IDA Ratios	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Share of Total Long-Term DOD						
1. IBRD as % of Total	2.77	2.51	2.69	2.88	3.76	3.76
2. IDA as % of Total	1.55	2.91	2.31	1.77	1.80	1.78
3. IBRD+IDA as % of Total	4.32	5.43	4.99	4.65	5.56	5.54
Share of LT Debt Service						
1. IBRD as % of Total	8.99	1.89	2.93	8.19	6.35	9.87
2. IDA as % of Total	0.22	0.20	0.25	0.44	0.31	0.40
3. IBRD+IDA as % of Total	9.21	2.08	3.18	8.63	6.66	10.27
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	137.93	185.89	388.57	412.15	450.06	..
2. IMF Credit/Exports	2.08	0.79	2.45	1.85	1.66	..
3. Short-Term Debt/Exports	23.69	55.55	90.10	92.66	71.41	..
4. LT+IMF+ST DOD/Exports	163.69	242.22	481.11	506.65	523.13	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	83.29	105.92	164.81	181.44	184.62	182.70
2. IMF Credit/GDP	1.25	0.45	1.04	0.81	0.68	0.51
3. Short-Term Debt/GDP	14.31	31.65	38.22	40.79	29.29	39.48
4. LT+IMF+ST DOD/GDP	98.85	138.03	204.06	223.04	214.59	222.69
Debt Service /Exports						
1. Public & Guaranteed LT	8.75	28.85	36.12	13.63	28.70	..
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	..
3. Total Long-Term Debt Service	8.75	28.85	36.12	13.63	28.70	..
4. IMF Repurchases+Serv. Chgs.	0.75	0.19	0.40	0.38	0.38	..
5. Interest only on ST Debt	2.96	2.86	5.81	5.14	5.05	..
6. Total (LT+IMF+ST Int.)	12.46	31.89	42.33	19.15	79.34	..

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Costa Rica

Costa Rica enjoyed a period of rapid development during the 1960s and early 1970s, based mainly on increased exports of a few agricultural goods, principally coffee and bananas. When the terms of trade deteriorated in the late 1970s, as coffee prices dropped and oil prices rose, the government followed expansionary domestic policies in an effort to maintain GDP growth. The growing deficits of the public sector resulted in an acceleration of inflation, an appreciation of the colon, and growing balance of payments deficits which were largely financed through stepped-up external borrowing, especially from commercial banks. This led to a mounting external debt and rising concerns about Costa Rica's creditworthiness.

By 1980 the colon had become seriously overvalued, while continued uncertainties about economic policies contributed to growing capital flight and loss of international reserves. The government allowed the colon to float by the end of 1980, but as the fundamental disequilibria in the public finances were not solved, the situation reached crisis proportions during 1981, when GDP declined by 2.3 percent, the deficit in the current account of the balance of payments rose to 15.8 percent of GDP, the non-financial public sector deficit reached 13.6 percent of GDP and inflation climbed to 37 percent. Faced with rapidly increasing debt service obligations and depletion of external reserves, Costa Rica suspended debt service to all but multilateral creditors in August 1981. In response, foreign commercial banks stopped all voluntary lending to the country. During 1982, the country's economic crisis worsened, with GDP falling by about 7.3 percent, and inflation climbing rapidly to about 90 percent. Public finances continued to worsen as the public sector deficit reached about 15 percent of GDP. Despite a small trade surplus, the overall balance of payments also deteriorated further, mainly because of large interest payments.

The government introduced adjustment measures in mid-1982 to restore a manageable external position and contain inflationary pressures. In particular, it cut drastically the deficit of the non-financial public sector. The government also resumed partial debt service payments to foreign creditors and reached debt rescheduling agreements in 1983. As a result, a substantial improvement in the economic and financial situation took place in 1983 and 1984, with GDP growing at 3.4 and 7.5 percent, respectively, and inflation falling to 12 percent in 1984. Further, the current account deficit, including official grants, was cut from nearly 10 percent of GDP in 1983 to about 5 percent of GDP in 1984.

During 1985, the government formalized its economic stabilization and recovery efforts and obtained substantial additional external financing from its major donors and the commercial banks agreed to a new US$75 million credit facility, and to reschedule 1985-86 principal obligations. The government also reached agreement through the Paris Club to reschedule principal and interest on official bilateral debt falling due during 1985.

Despite these capital inflows, Costa Rica's economy deteriorated again in 1985, with GDP growth averaging 1 percent. As exports dropped, the current account of the balance of payments deteriorated, reaching 8 percent of GDP. Arrears amounted to US$32 million at year end. Public finances also worsened, with the public sector deficit, including central bank losses, increasing to 7.5 percent of GDP.

Economic performance improved in 1986, owing to a significant improvement in the terms of trade, as coffee prices rose and petroleum prices dropped as well as an increase in non-traditional exports to markets outside the CACM. As a result, GDP grew by 5.4 percent, the deficit in the current account of the balance of payments fell to 4.2 percent of GDP, and the public sector deficit decreased to 5.4 percent of GDP. The economy continued its rapid expansion in 1987, with GDP growing by 5.5 percent.

Following a rapid domestic credit expansion in late 1986 to early 1987, the annual rate of inflation rose to 20 percent in the first part of 1987. However, restrictive measures undertaken in the second part of the year brought about a slow-down in the rate of price increases, and the annual inflation rate for 1987 was 16.8

percent. The expansionary monetary policy in the first part of the year coupled with a sharp deterioration in the terms of trade led to the doubling of the deficit in the current account of the balance of payments to nearly 10 percent of GDP in 1987.

A devaluation of 6 percent in January 1988 and a financial crisis in February led the authorities to relax their monetary policy, resulting in a further rise in the rate of inflation to 25.4 percent in January-December 1988, while the rate of growth of GDP was 3.8 percent. Implementation of measures to improve public finances continued. A tax package was sent by the government to Congress for consideration and was approved in November 1987. The package called for increases in direct and indirect taxation and would increase tax revenues by 3/4 of 1 percent of GDP on a yearly basis. To control public expenditures, the government enforced a freeze on new hiring to reduce the real value of the public sector's wage bill. Also, support prices for basic grains were cut to reduce existing distortions in agricultural production and the losses of the public Agricultural Marketing Agency (CNP). Consequently, the 1988 overall deficit of the public sector, including central bank losses, remained at the 1987 level— about 3.5 percent of GDP. However, as the terms of trade recovered somewhat, the deficit in the current account of the balance of payments declined to about 7 percent of GDP in 1988.

Recent Economic Developments

The government's program to control inflation achieved remarkable results in 1989, when consumer prices increased by 10 percent. This was achieved by combining a restrictive monetary policy with a slow down in the rate of devaluation. GDP grew by an estimated 5 percent.

The major problem of the Costa Rican economy in 1989 was the deterioration of the fiscal accounts. While the government's program called for turning the 1988 deficit of the non-financial public sector (0.6 percent of GDP) into a small surplus in 1989, it appears that the deficit has grown instead to an estimated 2.2 percent of GDP. Virtually all this deterioration occurred due to higher central government expenditures, mainly on export incentives, wages and social security payments. The larger fiscal deficit contributed to a steep increase in imports, which rose by an estimated 23 percent in 1989. This increase was particularly worrisome following the collapse of the international coffee agreement and the drop in coffee prices, which is projected to result in a loss of over $100 million in foreign exchange earnings in 1990. Although non-traditional exports maintained their fast rate of growth and expanded by nearly 25 percent, the trade deficit nearly doubled and is estimated to have reached $340 million (6.6 percent of GDP) last year.

The Arias government made significant progress in implementation of the structural adjustment program. As of April 1990: (i) four of the six tariff reductions that will bring the maximum tariff to 40 percent have been implemented and export licenses were recently abolished; (ii) the prior deposit for imports was reduced from 50 percent to 1 percent; (iii) a financial sector law that would improve competitiveness in the banking system and increase its soundness was approved by the Legislative Assembly in November 1988 and lending rates were recently liberalized; (iv) prices of most basic grains have been adjusted so that they are closer to international prices and consumer subsidies have been greatly reduced. In addition, Costa Rica recently joined international organizations such as the Multilateral Investment Guarantee Agency (MIGA) and the GATT.

Medium-Term Strategy

A new government, led by President Calderon, took office on May 8, 1990. This change in authorities is not expected to modify the focus of the adjustment process. The second phase of the adjustment program includes critical actions in the following areas: (i) reform of the trade regime and export incentives to promote increased non-traditional exports to third markets; (ii) additional steps to increase public savings, reduce the overall public sector deficit (including central bank losses) and increase the effectiveness and efficiency of the public sector investment program; (iii) improvement in the ability of the financial system to mobilize and intermediate financial resources; and (iv) rationalization of pricing, marketing and subsidy policies in the agricultural sector to improve its productivity.

President Calderon and his economic team are fully aware of the need to take remedial measures to correct the fiscal situation and to consolidate the ongoing structural adjustment process. Mr. Calderon has indicated that his government will take strong stabilization measures in order to cut the deficits in both the fiscal and the external accounts. In terms of longer-term adjustment, the development strategy of the incoming government is expected to focus on: (i) accelerating the integration of Costa Rica into the world economy; (ii) encouraging private sector initiatives to expand production and exports; and (iii) reducing the size of the public sector and improving its finances. Mr. Calderon has stated his intention not only to complete implementation of this program but to continue the adjustment process beyond the current targets. With regard to the third point, a comprehensive reform of the public sector is needed to achieve a substantial and permanent reduction in public expenditures. In fact, public sector reform will be the main challenge facing the new administration.

In November 1989, Costa Rica and the Advisory Committee of its commercial creditors reached agreement on a debt reduction package. The package would comprise the entire commercial debt and past due interest (PDI), which amount to $1.6 billion. At least 60 percent of that debt would be bought back at a price close to the secondary market price, and the rest would be exchanged at par for bonds with an interest rate of 6.25 percent. The remainder of the PDI after the buy-back ($130 million) would be treated separately: (i) a down payment of 20 percent; and (ii) the remaining 80 percent would be refinanced at LIBOR +13/16 percent. The interest on the par-bonds and on the PDI-bonds of the banks tendering at least 60 percent of their debt in the cash buy-back would be collateralized. The response of the commercial banks has been overwhelmingly positive, as banks holding over 98 percent of the outstanding commercial debt indicated that they would participate in the deal: 63 percent of the debt in the buy-back and 35 percent in the bond exchange. The closing date of the operation was May 21, 1990.

Economic Outlook

While the medium- and longer-term growth prospects of Costa Rica remain good, the short-term outlook was negatively affected by the deterioration of the fiscal accounts and by the drop in coffee prices. As mentioned above, the government of President Calderon intends to take strong measures to correct the fiscal situation. With regards to the terms of trade, a recent World Bank study shows that Costa Rica has a substantial relative advantage in the production of high quality coffee and would be able to expand production to make up for the loss of revenue. The efficiency in banana production has improved markedly in the last two years and non-traditional exports have been growing at a very fast pace, as lower trade restrictions are reducing the anti-export bias of the trade regime. However, there are several major difficulties, such as the constraints on expanding domestic and regional markets, the time needed to develop new non-traditional exports, and the country's high debt service obligations which limit resources available for investment. Also, after many years of changing incentives and regulations, government policies have a credibility problem, that could undermine the outcome of the adjustment program.

GDP growth could remain healthy during 1990-92, provided that the government provides a stable macroeconomic framework and takes decisive actions to change the relative profitability of exports outside the CACM, liberalize agriculture policies and the financial system, and reduce the size of the public sector. Continued capital inflows, including significant grants, would also be needed. The debt reduction agreement with the commercial banks would close Costa Rica's financing gap and put the country on a higher growth path by allowing higher imports, which would permit fuller use of existing capacity, and by reducing uncertainty, which would encourage higher domestic and foreign investment. Costa Rica would have to maintain an effective stabilization effort. With exports growing faster than imports, and a levelling off of interest payments reflecting the effects of substituting more concessional official assistance for commercial debt, the deficit in the current account of the balance of payments could decline from 8.6 percent of GDP in 1989 to less than 6 percent of GDP by 1992.

External Debt

Costa Rica's medium- and long-term external public debt (outstanding and disbursed) repayable in foreign currency as of December 31, 1989 was estimated at US$4.2 billion. The Bank Group held about 10 percent of the outstanding and disbursed debt repayable in foreign currency. This ratio is expected to increase only marginally in the next few years. Non-guaranteed private debt is estimated at US$650 million, including short-term debt.

Following the refinancing agreement with the Paris Club and the debt reduction agreement with the commercial banks, indebtedness indicators should improve by 1990, provided that the authorities carry out an effective stabilization program as well as structural reforms. If these actions are taken, the debt service ratio could decline, from 48 percent in 1988. Interest payments could decline from 20 percent of exports of goods and services in 1988 and the ratio of debt to exports of goods and services would fall from 3.0.

COSTA RICA

Mid-1988 Population (mils.)	3
1988 Per Capita GNP in US$:	1,700

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	7.0	5.3	2.5	3.3	5.0
Net Indirect Taxes	10.0	9.8	11.7	8.1	0.0	..	..	..	..	..	..
Agriculture	23.5	19.3	17.8	18.2	17.2	17.8	7.0	2.0	2.6	7.2	5.4
Industry	23.0	25.3	27.0	27.3	26.8	26.7	9.3	7.3	2.3	2.2	4.8
(of which Manufacturing)	..	..	..	..	..	..	..	..	..	..	..
Services	53.4	55.4	55.2	54.5	55.9	55.4	6.1	5.5	2.5	2.5	5.0
Resource Balance	-10.0	-6.1	-10.3	-2.8	-0.5	-3.4	..	..	..	..	..
Exports of GNFS	23.5	31.1	26.5	33.1	35.3	36.2	14.1	4.6	4.4	13.5	12.1
Imports of GNFS	33.5	37.2	36.8	35.9	35.9	39.7	10.0	8.3	4.9	-5.9	14.0
Total Expenditures	110.0	106.1	110.3	102.8	100.5	103.4	6.3	6.4	2.6	-3.3	5.4
Total Consumption	90.5	82.1	83.8	74.3	73.8	78.3	5.5	5.4	2.1	4.3	5.1
Private Consumption	77.9	68.2	65.5	59.3	60.2	64.8	5.3	5.2	2.6	4.6	5.7
General Government	12.6	13.9	18.2	15.0	13.6	13.5	6.8	6.4	0.5	3.0	2.5
Gross Domestic Investment	19.5	24.0	26.6	28.5	26.7	25.1	9.3	9.7	4.5	-22.9	6.4
Fixed Investment	18.6	22.2	23.9	19.6	18.4	19.0	9.6	9.7	2.7	-2.5	8.3
Changes in Stocks	0.9	1.8	2.7	8.9	8.3	6.1	..	..	..	..	..
Gross Domestic Saving	9.5	17.9	16.2	25.7	26.2	21.7	10.4	8.8	7.4	-16.5	-6.6
Net Factor Income	-2.3	-2.8	-4.8	-6.5	-7.1	-5.9	..	..	..	..	..
Net Current Transfers	0.8	0.5	0.4	0.9	0.8	0.8	..	..	..	..	..
Gross National Saving	8.1	15.5	11.8	20.0	19.9	16.5	10.1	6.7	9.0	-24.6	-10.1

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	105	182	252	285	294	309	7.0	5.3	2.5	3.3	5.0
Capacity to Import	20	45	62	94	95	100	10.9	7.3	7.2	0.4	5.7
Terms of Trade Adjustment	1	-8	-8	0	-12	-20	..	..	..	..	..
Gross Domestic Income	105	173	244	285	282	289	6.2	6.0	3.2	-1.1	2.5
Gross National Product	103	178	241	266	274	288	7.0	4.9	2.4	2.8	5.3
Gross National Income	104	170	233	266	261	268	6.2	5.6	3.1	-1.9	2.6

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	17.2	76.5	85.6	100.0	120.8	140.8	3.9	10.0	25.6	20.8	16.5
Wholesale Prices (IFS 63)	16.1	82.9	90.4	100.0	117.9	135.0	5.6	14.8	24.4	17.9	14.6
Implicit GDP Deflator	16.4	77.3	91.8	100.0	121.8	138.8	4.7	15.8	26.9	21.8	14.0
Implicit Expenditures Defl.	17.0	81.0	91.4	100.0	127.1	148.6	5.4	14.6	25.9	27.1	16.9

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.9	2.5	2.3
Labor Force	..	..	..
Gross Natl. Income p.c.	3.2	3.1	0.8
Private Consumption p.c.	2.3	2.7	0.2
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.4	1.6	2.0
Marginal Savings Rates:			
Gross National Saving	28.5	3.7	110.0
Gross Domestic Saving	31.3	12.4	103.4
ICOR (period averages):	..	5.1	10.2

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	46.9	38.7	30.8	..
Industry	19.2	21.0	23.1	..
Services	33.9	40.3	46.1	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.BEV.COFFEE	..	..	..	..	..	..	248	316	392	335	316	286
X.FOOD.BANANA	102.8	89.8	95.5	100.0	107.0	123.9	208	208	217	229	221	271
X.FOOD.MEAT	96.2	100.8	128.9	100.0	85.0	68.6	71	54	70	63	55	49
X.FOOD.SUGAR	124.3	77.7	101.0	100.0	65.2	63.8	41	14	11	15	12	15
Manufactures	..	..	..	..	..	..	344	253	303	385	447	547
Residual	98.5	79.5	81.5	100.0	138.8	165.2	89	95	93	133	194	236
Total Exports FOB	74.9	69.6	80.3	100.0	108.1	124.3	1,001	939	1,085	1,158	1,245	1,404
F. Merchandise Imports												
Food	84.5	70.3	80.7	100.0	102.7	128.3	245	149	168	190	236	282
Fuel and energy	122.0	92.6	106.2	100.0	137.9	153.9	201	162	102	122	111	149
Other Consumer Goods	107.7	69.2	79.4	100.0	89.6	111.2	143	53	65	90	88	113
Other Intermed. Goods	93.9	79.8	91.5	100.0	100.4	118.9	610	502	533	638	690	841
Capital goods	107.7	78.4	89.9	100.0	79.5	93.8	325	229	280	341	295	359
Total Imports CIF	99.7	78.2	89.7	100.0	97.8	116.3	1,524	1,095	1,147	1,380	1,420	1,744

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	115.4	116.4	116.6	100.0	99.4	97.5
Merch. Imports Price Index	110.8	101.4	92.7	100.0	105.3	108.6
Merch. Terms of Trade	104.1	114.8	125.7	100.0	94.4	89.7

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,198	1,220	1,395	1,451	1,630	1,900
Merchandise (FOB)	1,001	939	1,085	1,107	1,210	1,400
Non-Factor Services	197	281	310	344	425	491
Imports of Goods & NFS	1,658	1,275	1,341	1,628	1,690	2,070
Merchandise (FOB)	1,375	1,001	1,045	1,245	1,280	1,580
Non-Factor Services	283	274	296	383	409	499
Resource Balance	-460	-55	54	-177	-55	-179
Net Factor Income	-219	-290	-286	-306	-340	-224
(interest per DRS)	171	342	216	145	185	246
Net Current Transfers	20	43	37	39	39	41
(workers' remittances)	..	..	0	0	0	..
Curr. A/C Bal. before Off. Transf.	-659	-302	-195	-444	-356	-362
Net Official Transfers	-5	176	115	187	213	150
Curr. A/C Bal. after Off. Transf.	-664	-126	-80	-256	-143	-212
Long-Term Capital Inflow	402	343	-56	-363	27	195
Direct Investment	48	65	57	76	76	90
Net LT Loans (DRS data)	369	171	-14	11	-23	-136
Other LT Inflow (Net)	-15	107	-100	-450	-26	241
Total Other Items (net)	224	-103	229	662	350	77
Net Short Term Capital	293	-246	131	531	253	25
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-70	143	97	131	97	52
Changes in Net Reserves	38	-114	-93	-43	-234	-60
Net Credit from the IMF	-1	33	-16	-40	-61	-35
Other Reserves Changes	39	-147	-77	-3	-173	-25
As Share of GDP:						
Resource Balance	-9.5	-1.4	1.2	-3.9	-1.2	-3.4
Interest Payments	3.5	8.7	4.9	3.2	3.9	4.7
Current Account Balance	-13.6	-7.7	-4.4	-9.8	-7.5	-6.9
Memorandum Items:						
Reserves excl. Gold (mil. US$)	146	506	523	489	668	743
Reserves incl. Gold (mil. US$)	197	525	550	519	677	746
Official X-Rate (LCUs/US$)	8.57	50.45	55.99	62.78	75.80	81.50
Index Real Eff. X-R Base 1980	100.00	80.85	72.70	65.97	60.41	..
GDP (millions of current US$)	4,831	3,922	4,425	4,538	4,725	5,261

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	21.0	24.5	24.9	25.9	26.1	26.6	..	..	..	..	..
Current Expenditures	23.3	20.8	20.5	21.3	21.3	23.3	..	..	..	..	..
Current Budget Balance	-2.3	3.7	4.4	4.6	4.8	3.3	..	..	..	..	..
Capital Receipts	0.2		0.1	0.1	0.1	0.1	..	..	..	..	..
Capital Expenditures	11.2	5.4	6.2	5.0	5.2	5.6	..	..	..	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-13.3	-1.7	-1.7	-0.3	-0.3	-2.2	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	4.7	3.2	2.1	0.7	-0.2	1.8	..	..	..	..	..
Domestic Financing (net)	8.6	-1.5	-0.4	-0.4	0.5	0.4	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	356	186	-19	26	-38	-118	1,692	3,505	3,579	3,677	3,531	3,592
Official Creditors	172	130	-2	25	-23	27	776	1,710	1,819	2,012	1,980	2,030
Multilateral	76	116	70	-9	-4	29	435	748	925	1,057	992	1,022
of which IBRD	23	63	27	-19	-33	9	178	308	413	496	418	415
of which IDA	0	0	0	0	0	0	5	4	4	4	4	4
Bilateral	96	14	-72	34	-19	-3	341	962	894	955	988	1,009
Private Creditors	184	57	-16	2	-15	-145	916	1,795	1,760	1,665	1,550	1,562
Suppliers	7	-7	-2	3	-5	6	34	13	11	14	13	15
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	14	-15	5	-16	15	-18	412	302	306	302	317	299
Total LT	369	171	-14	11	-23	-136	2,103	3,807	3,885	3,979	3,847	3,891
IMF Credit	8	13	-36	-63	-54	-33	57	189	172	132	71	35
Net Short-Term Capital	293	-246	131	531	253	25	575	376	470	579	611	721
Total incl. IMF & Net ST	670	-62	82	480	175	-145	2,735	4,371	4,527	4,690	4,530	4,647

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	8.48	8.10	10.64	12.45	10.87	10.66
2. IDA as % of Total	0.24	0.11	0.10	0.10	0.10	0.09
3. IBRD+IDA as % of Total	8.71	8.21	10.74	12.55	10.97	10.76
Share of LT Debt Service						
1. IBRD as % of Total	6.35	7.92	13.04	28.30	22.19	12.00
2. IDA as % of Total	0.03	0.04	0.05	0.05	0.06	0.04
3. IBRD+IDA as % of Total	6.38	7.96	13.09	28.35	22.25	12.04
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	172.61	299.72	269.76	266.62	229.88	199.01
2. IMF Credit/Exports	4.67	14.84	11.97	8.87	4.27	1.81
3. Short-Term Debt/Exports	47.19	29.57	32.63	38.79	36.51	36.89
4. LT+IMF+ST DOD/Exports	224.46	344.13	314.36	314.28	270.65	237.71
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	43.54	97.06	87.79	87.69	81.42	73.95
2. IMF Credit/GDP	1.18	4.81	3.90	2.92	1.51	0.67
3. Short-Term Debt/GDP	11.90	9.58	10.62	12.76	12.93	13.71
4. LT+IMF+ST DOD/GDP	56.61	111.44	102.31	103.36	95.86	88.33
Debt Service /Exports						
1. Public & Guaranteed LT	16.80	35.24	26.58	12.28	17.44	24.53
2. Private Non-guaranteed LT	10.59	2.75	2.55	2.55	2.44	3.82
3. Total Long-Term Debt Service	27.38	37.99	29.13	14.82	19.87	28.34
4. IMF Repurchases+Serv. Chgs.	1.30	2.82	3.54	4.97	3.71	1.97
5. Interest only on ST Debt	0.31	0.24	2.08	2.14	1.89	1.74
6. Total (LT+IMF+ST Int.)	29.00	41.04	34.75	24.15	25.54	32.06

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Côte d'Ivoire

With a GNP per capita of US$880 in 1988, Côte d'-Ivoire (RCI) is a middle-income country and among the most developed in West Africa. During the first 15 years following independence in 1960, it achieved rapid economic growth averaging 7.7 percent a year without major external and internal imbalances as a result of favorable resource endowments, inflows of cheap labor from neighboring Sahelian countries, political stability, appropriate macroeconomic policies and an agriculture based and export led growth strategy.

Despite this favorable initial period of rapid growth, RCI is today in a deep macroeconomic and financial crisis. The country's two key economic problems are a very large structural fiscal deficit and the lack of competitiveness of the productive sectors.

The roots of both problems to a large extent lie in mismanagement of successive external shocks beginning with the commodity boom of the mid-1970s. As the terms of trade improved by more that 60 percent; between 1975 and 1977, public expenditure increased dramatically from 26.5 percent of GDP in 1975 to 41.4 percent of GDP in 1978. However, when the boom ended, the government financed its ambitious expenditure program through foreign borrowing and money creation rather than cutting back on expenditure. The fiscal deficit, which was at 2.2 percent of GDP in 1975, rose to 12 percent in 1981 and has remained high, except during 1985 and 1986 when the cocoa and coffee markets experienced another temporary boom. During the 1980s the government sharply reduced investment expenditures and temporarily froze wages and salaries. Public investment was cut from 15.2 percent of GDP in 1982 to 3 percent of GDP in 1989; however, current spending[1] has been rising (from 18 percent of GDP in 1975 to 23 percent of GDP in 1989), and revenues have fluctuated widely around a virtually horizontal line in tandem with the commodity boom/bust cycle. RCI now faces an extremely high external debt burden; pubic debt outstanding amounted to some US$9.8 billion, or 105 percent of GDP in 1989 and the debt service ratio for 1990 is estimated at 49 percent.

A fixed nominal exchange rate combined with an inflation rate that was higher than that of its trading partners led to a sharp appreciation of the real exchange rate, thus undermining the competitiveness of the RCI economy. For example, from 1985 to 1988 the real effective exchange rate appreciated by some 30 percent; the level of real overvaluation may in fact be larger if one takes into account that since 1985 there have been large decreases in the terms of trade and increases in outstanding external debt. RCI has been able to diversify out of cocoa and coffee only to a limited extent and remains extremely vulnerable to changes in their world prices. Other key structural constraints which impede improving competitiveness are an inappropriate regulatory framework and a large and inefficient public enterprise sector.

Recent Economic Developments

Following two years of growing fiscal deficits, in 1989 the deficit (on a commitment basis) reached the record level of 16 percent of GDP. Unable to finance such large deficits through internal and external borrowing, the public sector has been accumulating substantial external and internal payment arrears. In mid-1987, the government suspended payments to the London and Paris Club creditors; the stock of internal payment arrears expanded rapidly, precipitating a serious liquidity crisis and a loss of confidence by the private sector.

The deep macroeconomic and financial crisis, triggered by the marked decline in the terms of trade since mid-1986, has resulted in sharply falling incomes, rising unemployment, and serious social unrest. The government decided in mid-1989 to start taking corrective action and is implementing an economic recovery program. After an initial period of continued recession,

1. Net of stabilization deficits and interest payments on external debt.

during which domestic prices are expected to adjust downward, factor mobility should be enhanced and incentives for the production of tradables increased, which would return the economy to a stable growth path of around 4 percent a year, consistent with internal and external equilibria.

The principal objectives of the first phase, ending December 1990, are to reduce the fiscal deficit and achieve substantial progress in repaying domestic and external arrears while carrying out structural reforms in key sectors. During a second phase, to commence in late 1990 or early 1991, the government aims in the medium-term at restoring competitiveness of the economy by bringing about a real depreciation of the exchange rate and enhancing the efficiency of the economy, while continuing to improve public finances. The government has agreed in principle that the basic elements of this second, growth-oriented, phase are: reducing public expenditures through further cuts in current expenditures, including salaries, while shifting spending in support of productive activities and increasing investment which is currently at a very low level; privatization and public enterprise rehabilitation; deregulation; tax and tariff reform; and financial sector reform.

Another key factor undermining the RCI economy is the status of the domestic financial system which is in acute distress. The main causes are primarily rooted in the macroeconomic imbalances and rising public sector deficits. The large accumulation of public sector arrears with banks have seriously eroded their liquidity. In addition, the loss in competitiveness and the downward spiral in economic activity in the productive sectors have undermined the portfolio of the commercial banks. Moreover, the drop in public sector deposits and capital flight have eroded the resource base of the banks.

Faced with this grave situation, the authorities are starting to implement a medium-term strategy to address the present financial difficulties and return RCI to the path of sustained economic growth consistent with the country's high potential. This strategy aims progressively to achieve a restructuring of the economy and a major improvement in competitiveness so as to reduce its dependence on cocoa and coffee production by expanding non-traditional exports, and increase the scope for efficient import substitution. To succeed, this strategy will need to be supported by substantial concessional external financing from official creditors and a significant reduction in both the outstanding external debt and debt service payments to commercial banks.

Short-Term Financial and Structural Reforms

The government's objective in the short term is to move rapidly toward equilibrium in public finances and to reduce substantially domestic payment arrears. Achieving this goal is a prerequisite for the resumption of growth since internal arrears are jeopardizing the financial system and have led to a rapid decline in private sector activity. Hence, the government put in place an 18-month program which aims at stabilizing the economy while starting the more difficult process of structural reform.

The government's public finance objectives were to achieve a 1989 fiscal deficit (on a commitment basis) of 8 percent of GDP or 3.8 percent of GDP excluding interest payments on foreign debt (primary fiscal deficit). In addition, domestic arrears were to be reduced in 1989. However, owing to lower than expected international prices for cocoa and coffee and a more rapid decline in economic activity, the 1989 budgetary results were substantially worse than expected; the overall and primary fiscal deficits are estimated at 16 percent and 7 percent of GDP, respectively and, and given the lack of additional financial resources, domestic payment arrears continued to increase. Slippages in revenues of 3 percent of GDP and increased stabilization expenditures of 1 percent of GDP explain in most part the 1989 results.

Owing to difficulties experienced in the second half of 1989 and the need to accelerate the preparation of the medium-term program, in late February 1990 the government made a major effort to strengthen the economic recovery and stabilization program. The principal target was to reduce the public sector wage bill and thereby balance the efforts sought from the rural population in 1989 in the form of a reduction in the producer prices for cocoa and coffee. The wage reduction was to be accompanied by a package of social measures to reduce the cost of living of the poorest population groups. Despite the scope of the accompanying measures envisaged, the announcement of the wage reductions met with strong social opposition and the reductions were withdrawn. The government reacted to this situation in April by re-examining the terms for implementing its strategy so as to adapt it better to circumstances and to the short- and medium-term objectives.

The government then prepared an enhanced policy package to bring the program back on track. With regard to public finances, the program endeavors to achieve a small primary fiscal surplus and repay some internal arrears. This objective will be achieved by reversing the negative revenue trends of 1989 through a rapid, comprehensive, and sustained improvement in tax and customs administration in order to increase revenues to slightly over their 1989 level and by slashing expenditure, especially non-wage current expenditures. In addition, the government decided to begin the process of permanently reducing the public sector wage bill over a longer period by reducing temporary employees and by rigorously monitoring the management of staffing levels and the wage bill. The stabilization phase also includes measures which begin to address medium-term constraints such as financial sector reform, improving public enterprise monitoring, price liberalization, review of labor policy and simplification of trade regulations. Simultaneously, structural reform programs in the agriculture, energy, and water sectors are being implemented.

Commodity Stabilization. In July and September 1989, the guaranteed producer prices for both cocoa and coffee were reduced from CFAF 400/kg to CFAF 200/kg. These reductions, together with a cut in scheduled marketing costs of 9.4 percent, resulted in a decline in the domestic price for both cocoa and coffee of close to 35 percent. However, large coffee stocks of low quality need to be written off during the next three years, which will increase costs. In order to avoid similar situations in the future, the government has decided that CAISTAB support will be limited to good quality coffee. With regard to cotton, measures were already taken during the third quarter of 1989 that eliminated the stabilization deficit. On the basis of these measures and current projections for world market prices and exchange rates, CAISTAB's stabilization deficit is expected to be less in 1990 than the 5 percent of GDP recorded in 1989. By 1991, these measures should result in a small surplus.

Expenditure Reduction. In light of the difficulties encountered in 1989 and the first quarter of 1990 in attaining revenue targets, the new program is predicated more on deep expenditure cuts than the initial program. Total expenditure is to be reduced by 12 percent compared to 1989, despite the fact that some expenditures such as social security payments are by their nature outside the purview of the government. Investment expenditures will once again be reduced; although this cut may be justified from a financial point of view, investment needs to be substantially increased in the future since the current expenditure level is not sufficient to maintain the capital stock. Current expenditures are to fall although, in light of the difficult social and political situation, salaries are not to be changed. The wage bill will be reduced compared to 1989 by limiting the use of temporary employees and improved monitoring of the payroll. Hence, the reduction in current expenditures will be mostly achieved through cutting non-wage expenditures.

Revenue Enhancement. The government has prepared measures that are expected to reverse the negative trends of 1989 resulting from the sharper than forecast decline in economic activity and the weak administrative and institutional capacity. Compared to 1988, total revenue in 1989 declined to 15 percent from 24 percent of GDP. The program includes ambitious measures during the last seven months of 1990. As the tax burden in RCI is already high, to the point where raising tax rates tends to reduce receipts, increases in taxes and parafiscal charges are programmed to yield only modest results. Thus, the government proposes to achieve its revenue targets mainly through expansions of the tax base toward the informal economy, by combating fraud, improving administration and productivity of the fiscal system, compensations between tax and budgetary arrears, and increases in non-fiscal revenues, especially improved monitoring and control of transfers from public enterprises.

Sectoral Reforms

In addition to the financial stabilization measures described above, the program provides for a wide-range of sectoral reforms for which implementation has already started—or will start before the end of 1990. These reforms aim principally at restoring international competitiveness through reductions in factor costs, strengthening of economic incentives, removal of distortions created by government intervention, and increased reliance on the private sector. Adjustment in the agriculture, energy, and water and sanitation sectors is being implemented with Bank support, while financial sector reforms have been initiated by the BCEAO.

The Agricultural Sector Adjustment Program. One objective of this program is to shift incentives toward crops with higher comparative advantage by (i) allowing producer prices to reflect world market conditions; (ii) providing adequate incentive to high value crops and improved quality, especially coffee (for which a special quality premium has been introduced), rubber, fruits and vegetables, and cotton; and (iii) introducing a 20 percent premium on exports of non-traditional crops. It will also improve rural financial intermediation and access to savings/credit facilities, including a restructuring of the Agricultural Bank (BNDA). It will extend export/import and domestic marketing liberalization to food crops, livestock, cotton, palm oil, and diversification crops; eliminating subsidies and reducing intermediation costs by parastatal marketing enterprises. Costs for the agro-industrial sector will be reduced through tax reform, especially by extension of the value-added tax to the sector. Public expenditures will be reoriented away from subsidies and toward high-return investments and adequate funding of research and extension services. Finally, it aims to reduce the government's role in direct production, and separate the commercial activities of parastatals from their responsibilities undertaken on behalf of the government.

The Energy Sector Adjustment Program. The main elements of this program, are: (i) introduction of a new contractual framework for hydrocarbon exploration and development; (ii) review of the energy project portfolio to define an optimum investment program; (iii) internal reorganization and financial restructuring of energy parastatals; and (iv) introduction of more efficient — flexible — pricing for energy products as well as selective energy price reductions. Together, these measures will make a significant contribution to a more efficient allocation of resources in the energy sector as well as in the economy as a whole, mobilize private sector finance, and enhance the competitive position of the country's productive sectors.

The Water and Sanitation Sector Adjustment Program. This program will reduce and realign water costs so as to improve industrial competitiveness, as well as restore water services to four million villagers, arrest environmental degradation, and promote privatization. The program includes: (i) transferring operating and maintenance responsibilities in the rural areas to water users; (ii) transferring investment-related responsibilities for urban water supply to a private operator; (iii) introducing regulations concerning private extraction of water resources and wastewater disposal; (iv) restructuring the finances of the sector to restore its financial autonomy; and (v) reducing water tariffs and costs by 20 percent.

Social Dimensions of Adjustment

The present economic crisis has led to a sharp reduction in per capita income and in private consumption during the past few years. The halving of producer prices for cocoa and coffee were necessary macroeconomic measures but they have dealt a blow to rural incomes. However, it is important to note that the impact of this measure had already been felt for some time: for about a year prior to the formal cut in producer prices announced in September 1989, traders and intermediaries were not paying many farmers the official price in the anticipation of a market shift and because of the inability of CAISTAB to fully compensate merchants. The official realignment of producer prices and reduction of marketing margins thus keeps wealthy individuals (the traders) from making a major profit at the expense of the farmers while increasing pressure to reduce costs. The reforms now envisaged encourage cocoa and coffee farmers to reconstitute their incomes by switching to other crops. The objective of these and other reforms is to lay the foundations for resumption of growth in this key sector of the RCI economy, which should help re-establish the positive trend in income distribution after the initial adjustment. Other actions will also have a major impact on rural welfare. These include: more rational electrification; more effective water supply; and the proposed reorientation of intrasectoral expenditures in the health and education sectors to favor basic and primary services. In the urban areas, the poor are concentrated in the informal sector where economic activities are effectively deregulated. Food prices, which are an important element affecting the consumption baskets of these households, are not likely to decline. More important, however, will be the successful implementation of the overall structural adjustment program that will lay the foundation for the participation of the poor, both rural and urban, in the process of economic growth.

To address both the short-term issues of negative impact of stabilization policies, and the medium-term issues of effective participation in resumed growth, the government also intends to design and implement a comprehensive strategy to achieve growth with poverty reduction. To this effect, two working groups have been established, with representation from all sectors concerned, and participation drawn from government, the private sector, and academic circles. They are in the process of defining the policy measures, action plans and additional support measures required.

Resumption of Growth in the Medium-Term

The massive 35 percent terms of trade deterioration from 1986 to 1989 and the concomitant rise in the current account deficit from an equilibrium situation in 1985-86 to 10 percent of GDP in 1989, imply the need for both a reduction in absorption and a depreciation in the real exchange rate. Restoring equilibrium in public finances is a prerequisite not only because of the urgent need to reduce internal arrears and help restore private sector confidence; it is also necessary to achieve a sustainable balance of payment by reducing absorption and to help restore competitiveness through a depreciation of the real exchange rate. However, the success of the financial stabilization and sectoral reform programs is a necessary, but not sufficient condition, for the resumption of growth. This will require a further shift in relative prices and in the incentives structure in favor of tradeables. Hence, the government decided to complement its current efforts with a medium-term adjustment program aimed at restoring RCI's competitiveness and diversifying its economy.

The government has decided that the required depreciation of the real exchange rate would be achieved through internal deflationary policies and reductions in domestic costs in order to avoid inflationary pressures and other possible negative consequences on the franc zone. In particular, a nominal decline in wages will be necessary; wages in the industrial sector have been estimated to be from 70 percent to five times those prevailing in competing countries. The RCI economy is also extremely inefficient. A wide-ranging reform program is necessary to eliminate distortions and increase productivity. In order to achieve these objectives the government intends to implement a program consisting of five main elements: reducing public expenditures through cuts in current expenditures, including salaries, while increasing investment; privatization and public enterprise rehabilitation; deregulation; tax and tariff reform; and financial sector reform.

Reductions in Government Spending. No medium-term program will be viable if it is accompanied by large fiscal deficits. The government's objective in this regard is to achieve a significant primary fiscal surplus by 1995. Since revenues are not expected to increase as a percentage of GDP, further cuts in expenditures are required and given the need to increase investment expenditures gradually over time, these cuts need to come from the recurrent budget. This necessarily means a reduction in the civil service wage bill which is the largest item of the recurrent budget. The personnel budget represents 12 percent of GDP, and the mean civil service salary is around US$600 per month, roughly 10 times average per capita GDP.

The government has in principle agreed to a 20 percent nominal reduction of the wage bill to be achieved over an extended period mainly by significantly reducing special indemnities and benefits in kind such as free housing. Three fifths of the current budget is spent on health and education. While the government and the Bank are in full agreement that these sectors should be protected to the fullest extent possible, there is also agreement that a fundamental restructuring of relevant programs is required, including redirecting resources toward primary health and education, increasing cost recovery from beneficiaries, and in general increasing efficiency in the delivery of these services.

The Rehabilitation and Privatization of Public Enterprises. The state still occupies an important position in the modern secondary sector; nearly half of the capital of this sector was owned by the state in 1988. Parastatal enterprises are prevalent in almost all subsectors. A preliminary inventory found 9 public establishments (i.e., institutions with an internal structure of a government agency and no capital) that raise the majority of their resources from the sale of goods and services; 9 parastatals that are fully owned by the state, 22 in which the state is a majority partner; and 43 in which it is in a minority position. The parastatal sector is not well managed; not only are many parastatals overstaffed and returns on capital low and even negative, but the higher the participation of the state, the worse tends to be the performance of the firm.

The government is fully aware that the prevalent excessive cost structure is due in part to the inefficiency of the parastatal sector. Especially important are the high electricity and water tariffs, and the inefficient operations of CAISTAB and the "Caisse de Perequation." In view of this the government has adopted a strategy of progressive but rapid withdrawal of the state from all directly productive activities. In addition, in order to improve the performance of the paratatal sector, and reduce costs and the drain on budgetary resources, supervision and financial control mechanisms would be intensified while at the same time granting more a priori autonomy to firm managers.

Regulatory Reform. The Ivorian economy is excessively regulated. Areas where glaring anomalies exist include the ineffectual system of price controls; the investment code and the long delays (sometimes up to two years) for foreign investors in obtaining official approval; export and import regulations; and labor regulations which impede the efficient working of the labor market. These regulations systematically increase the cost of private sector operations, and lead to significant rigidities in output and factor prices; they also impede desired shifts in factor allocations, augmenting the real costs and decreasing the efficiency of the adjustment measures required to depreciate the real exchange rate irrespective of the approach adopted to achieve this real depreciation. Aware of this, the government intends to reform the regulatory framework. A detailed reform program, currently being prepared, will include, inter alia, actions in the areas of investment code, the labor market, international transport and export and import procedures and the company law.

Tax and Tariff Reform. By all accounts, the RCI productive sector is overtaxed: the effective profit tax is 50 percent, the normal VAT rate is 25 percent, and the domestic gasoline price (CFAF 350 per litre) is much higher than world prices because of high taxes. The high tax rates not only decrease the international competitiveness of the RCI modern sector; they have multiplied distortions since well-placed firms and entrepreneurs have been able to secure privileged tax and/or customs status. Despite these high rates, tax collection is low and decreasing, as economic activity declines and fraud and evasion rise. Faced with a shrinking tax base, the government has in the past resorted to increasing rates which has led to further shrinking of the formal sector. Hence a reduction of statutory rates, together with tax simplification and institutional reforms aimed at improving collections, is an important component of both the short- and medium-term phases of the government adjustment program.

With regard to the reform of the tax and tariff systems, the government will prepare detailed measures in this area to be included in the regulatory/incentive reform program. Recommendations concerning the simplification of the tax regime, a single VAT rate, one income tax schedule and a more uniform tariff structure, as well as those concerning the reduction of taxes on productive activities such as the rationalization of the implicit taxes on petroleum products are being considered. In addition, the government has decided to eliminate the National Investment Fund Tax to reduce the effective profit tax from 50 to 40 percent.

The government will also implement in the context of the first phase of its recovery program a detailed plan consisting of both short- and medium-term measures aiming at reinforcing the tax and customs departments. With regard to customs, the principal measures envisaged are reviewing legal and financial prerequisites for customs agents, introducing more efficient systems in monitoring both the value of imports and exports and effective payment before goods are released from customs, and introducing a personnel rotation plan. These measure will be supported by a detailed audit of the Customs Department, the recommendations of which will be implemented in 1990. With regard to taxes, the key measures to be implemented are the introduction of systems and individual files to monitor taxpayers in arrears, organize emergency tax collection operations, and create new inspectorates. The government has requested technical assistance from France and the IMF to carry out some of these measures.

Financial Sector Reform. The government, the BCEAO, and several commercial banks have taken major steps over the last five years to correct some of the most important deficiencies of the financial system. First, the government has restructured or liquidated five specialized public banks. BCEAO has ended the preferential discounting system, tightened the crop credit system and began to strengthen control over banking activities. Finally, several commercial banks have substantially reduced staff, improved management and control, closed branches and undertaken financial restructuring.

Nevertheless, the situation remains extremely worrisome as negative growth and persisting public finance difficulties and the fragility of the financial system negatively interact with one another. To return to good health, the banking system requires above all a dramatic improvement of the macroeconomic situation, that is, a settlement of domestic arrears and the restoration of competitiveness. On the other hand, the banking system requires support to survive the impact of the further adjustments needed to stabilize the economy, since the success of the adjustment process itself hinges on the existence of an operative and stable financial sector. The challenge is to put in place measures that, in the short run, will avoid a banking sector collapse and in the longer run gradually restore the health of the financial system.

Fully aware of the gravity of the situation, the government is preparing an in-depth financial sector reform as a component of the medium-term program. The objective is for the program to be put in place before the end of 1990. It will most likely involve three phases: (i) stabilization of the situation by performing comprehensive audits of the commercial banks (completed), the orderly repayment of domestic payment arrears, pursuing a tight but flexible monetary policy, and improving the balance sheets of the most fragile banks through financial restructuring; (ii) restructuring and recapitalizing financial institutions in order to assure their survival during the adjustment process: and (iii) in the longer-term, measures need to be devised and taken to revitalize and diversify the financial sector so it could effectively finance economic growth and social development.

COTE d'IVOIRE

Mid-1988 Population (mils.)	12
1988 Per Capita GNP in US$:	880

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rat es(% per (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	8.9	5.7	0.5	-1.8	-1.3
Net Indirect Taxes	16.5	19.7	19.3	24.8	24.0	23.0	..	..	..	..	..
Agriculture	39.6	31.0	26.9	31.1	33.4	35.4	4.9	3.3	1.9	5.5	4.6
Industry	15.9	17.7	16.1	20.2	19.4	18.5	12.5	11.7	-1.4	-5.6	-6.0
(of which Manufacturing)	9.1	10.2	8.8	..	..	..	10.9	8.3	..	..	..
Services	28.0	31.5	37.7	24.0	23.2	23.1	11.2	3.6	1.3	-5.0	-1.8
Resource Balance	6.7	2.5	-6.1	4.6	0.8	2.8	..	..	..	..	..
Exports of GNFS	36.8	35.8	34.0	35.4	31.7	35.3	7.9	3.3	-2.1	-4.2	14.9
Imports of GNFS	30.1	33.2	40.1	30.8	30.9	32.4	8.0	11.8	-5.7	-3.6	-6.5
Total Expenditures	93.3	97.5	106.1	95.4	95.8	88.5	9.0	8.5	-0.9	-1.5	-8.8
Total Consumption	71.4	74.3	77.8	83.7	80.6	78.2	9.3	6.7	2.8	-5.5	-4.3
Private Consumption	60.6	58.5	60.0	68.2	61.9	59.8	8.6	5.4	6.9	-7.0	-4.4
General Government	10.8	15.8	17.8	15.6	18.7	18.4	14.6	13.4	-7.1	0.9	-3.7
Gross Domestic Investment	21.9	23.2	28.2	11.7	15.2	10.3	7.8	15.5	-12.4	27.0	-33.0
Fixed Investment	21.3	21.8	26.2	10.7	15.2	10.3	7.8	16.3	-13.5	..	..
Changes in Stocks	0.6	1.4	2.0	1.0	..	..	..	..	..	..	..
Gross Domestic Saving	28.6	25.7	22.2	16.3	19.4	21.8	4.7	8.9	-4.5	17.2	25.7
Net Factor Income	-6.1	-8.9	-5.4	-6.7	-2.9	-9.1	..	..	..	..	..
Net Current Transfers	0.0	-4.9	-6.8	-3.9	-4.1	-3.4	..	..	..	..	..
Gross National Saving	22.4	11.9	10.0	5.6	12.4	9.3	-2.0	2.1	-6.4	119.0	-27.6
In billions of LCUs (at constant 1980 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	1,065	1,997	2,945	3,118	3,060	3,020	8.9	5.7	0.5	-1.8	-1.3
Capacity to Import	478	791	1,211	1,103	950	942	5.9	7.8	-0.8	-13.8	-0.9
Terms of Trade Adjustment	-40	-118	-46	0	-106	-272	..	..	..	..	..
Gross Domestic Income	1,025	1,879	2,899	3,118	2,954	2,748	8.2	7.2	1.1	-5.2	-7.0
Gross National Product	983	1,793	2,783	2,908	2,977	2,767	8.8	5.5	0.6	2.4	-7.1
Gross National Income	943	1,674	2,737	2,908	2,871	2,495	8.0	7.2	1.3	-1.3	-13.1

	(1987 = 100)						*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	70.6	92.8	99.6	100.0	107.0	..	4.2	16.2	4.9	7.0	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	75.4	104.1	103.8	100.0	100.3	98.3	3.0	15.1	4.5	0.3	-2.0
Implicit Expenditures Defl.	75.6	106.4	105.4	100.0	104.0	108.0	3.6	12.7	4.0	4.0	3.9

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-86*
Population	4.1	4.3	4.2
Labor Force	..	..	..
Gross Natl. Income p.c.	3.7	2.8	-2.5
Private Consumption p.c.	4.3	1.1	0.1
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.9	2.1	-5.4
Marginal Savings Rates:			
Gross National Saving	-0.3	6.4	37.3
Gross Domestic Saving	22.4	15.6	35.1
ICOR (period averages):	..	4.2	9.4

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*0*
Agriculture	80.6	73.1	65.2	..
Industry	4.7	6.4	8.3	..
Services	14.7	20.5	26.5	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	Volume Index (1987=100) 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
Cocoa beans	60.4	89.2	106.3	100.0	83.4	146.9	793	887	1,103	987	690	840
Coffee beans	124.9	145.6	138.0	100.0	108.6	80.3	644	618	663	390	315	214
Fuel	108.1	157.2	113.1	100.0	101.3	101.3	212	263	164	337	296	332
Timber	301.7	167.8	125.3	100.0	93.5	97.1	585	235	229	278	258	265
Manufactures	..	..	..	..	..	..	..	..	..	..		
Residual	..	..	..	..	..	..	778	732	1,017	1,101	1,104	1,149
Total Exports FOB	83.5	102.1	110.6	100.0	94.3	111.0	3,012	2,735	3,176	3,092	2,664	2,799
F. Merchandise Imports												
Food	116.1	87.6	106.3	100.0	93.4	94.5	380	241	306	508	502	504
Fuel and energy	236.5	185.2	113.9	100.0	101.2	98.8	487	333	216	336	289	341
Other Consumer Goods	116.1	90.1	106.5	100.0	81.6	84.6	551	360	447	547	472	486
Other Intermed. Goods	160.9	101.3	108.6	100.0	89.7	92.0	497	262	296	292	277	282
Capital goods	200.9	109.4	114.0	100.0	91.8	76.1	699	319	349	559	543	447
Total Imports CIF	154.6	107.9	109.3	100.0	90.8	87.8	2,613	1,515	1,615	2,243	2,081	2,059

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	116.6	86.6	92.9	100.0	176.6	153.4
Merch. Imports Price Index	92.8	77.0	81.1	100.0	221.6	223.8
Merch. Terms of Trade	125.6	112.4	114.6	100.0	79.7	68.6

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	3,577	3,160	3,638	3,670	3,268	3,282
Merchandise (FOB)	3,013	2,761	3,162	3,092	2,664	2,709
Non-Factor Services	564	399	475	578	604	574
Imports of Goods & NFS	4,135	2,173	2,734	3,197	3,185	3,018
Merchandise (FOB)	2,614	1,410	1,621	1,839	1,696	1,678
Non-Factor Services	1,521	763	1,113	1,358	1,489	1,340
Resource Balance	-558	987	903	473	83	264
Net Factor Income	-563	-666	-680	-699	-300	-848
(interest DRS/PPG)	354	472	532	396	220	693
Net Current Transfers	-716	-279	-426	-406	-424	-321
(workers' remittances)	0	0	0	0	0	0
Curr. A/C Bal. before Off. Transf.	-1,836	42	-203	-633	-641	-905
Curr. A/C Bal. after Off. Transf.						
Long-Term Capital Inflow	1,080	222	333	544	366	853
Direct Investment	95	29	107	..	..	..
Official Capital Grants	10	26	68	..	..	..
Net LT Loans (DRS data)	1,133	713	474	401	212	-96
Total Other Items (net)	644	-297	-119	..	..	..
Net Short Term Capital */	722	-359	424	..	..	..
Capital Flows N.E.I.	0	0	0	..	..	..
Errors and Omissions	-78	62	-465	..	..	..
Changes in Net Reserves	112	-33	-11	89	274	52
Net Credit from the IMF	0	-38	-66	-146	-65	-124
Other Reserves Changes	112	71	55	235	339	175
As Share of GDP:						
Resource Balance	-5.3	14.1	9.6	4.6	0.8	2.8
Interest Payments	3.4	6.8	5.7	3.8	2.1	7.4
Current Account Balance	-17.5	0.6	-2.2	-6.1	-6.2	-9.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	20	5	20	..	..	..
Reserves incl. Gold (mil. US$)	46	19	37	..	..	..
Official X-Rate (LCUs/US$)	211.30	449.26	346.30	300.20	297.85	319.00
Index Real Eff. X-R Base 1980	100.00	72.23	84.43	92.38	90.94	85.60
GDP (millions of current US$)	10,514	6,984	9,368	10,375	10,309	9,309

I. Budget	1980	1985	1986	1987	1988	1989	1985	1986	1987	1988	1989
Current Receipts	28.5	36.6	31.5	26.7	27.0	23.7	15.6	-12.0	-16.5		-15.4
Current Expenditures	22.6	27.4	27.7	27.5	30.8	31.9	4.9	3.3	-2.4	10.0	12.0
Current Budget Balance	5.9	9.2	3.8	-0.8	-3.8	-8.2	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	18.1	7.2	6.3	3.9	4.7	3.1	1.3	-9.8	-38.4	16.0	-35.0
Overall Deficit	-12.2	2.0	-2.5	-4.8	-8.4	-11.3	..	..	..	..	..
Official Capital Grants		..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	7.9	2.9	2.0	3.9	..	..	..	..	..	..	..
Domestic Non-Bank Financing	5.2	0.4	-0.2	..	..	..	..	..	..	..	..
Domestic Bank Financing	-0.9	-1.5	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions)						Debt Outstanding & Disbursed (US$ millions)					
	1980	1985	1986	1987	1988	1989	1980	1984	1985	1986	1987	1988
Public & Publicly Guar. LT	909	133	81	400	212	-96	4,328	4,969	5,921	6,778	7,247	8,055
Official Creditors	208	90	118	447	234	336	1,209	1,955	2,592	3,255	4,524	5,238
Multilateral	157	17	64	312	88	22	588	1,021	1,254	1,594	2,018	2,188
of which IBRD	78	26	61	284	-17	-2	306	768	965	1,253	1,670	1,714
of which IDA	0	0	0	0	0	0	8	7	7	7	7	7
Bilateral	50	74	54	135	145	314	622	934	1,339	1,661	2,505	3,050
Private Creditors	701	42	-37	-47	-22	-432	3,119	3,014	3,329	3,522	2,724	2,818
Suppliers	70	-18	-32	0	0	0	496	304	257	226	..	..
Financial Markets	631	60	-4	-47	-22	-432	2,623	2,710	3,072	3,296	2,724	2,818
Private Non-guaranteed	224	580	386	309	436	250	414	1,989	2,569	2,955	3,264	3,700
Total LT	1,133	713	467	709	648	154	4,742	6,958	8,490	9,733	10,511	11,755
IMF Credit	0	-38	-67	-146	-64	-123	0	591	622	623	604	539
Net Short-Term Capital	722	-359	424	0	0	0	1,059	630	725	787	1,265	1,265
Total Incl. IMF & Net ST	1,854	316	825	563	584	31	5,801	8,179	9,837	11,142	13,555	13,559

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Long-Term (PPG)						
1. IBRD as % of Total	7.10	16.30	18.50	23.00	21.30	19.10
2. IDA as % of Total	0.16	0.09	0.07	0.07	0.06	0.10
3. IBRD+IDA as % of Total	7.26	16.39	18.57	23.07	21.36	19.20
Share of LT Debt Service(PPG)						
1. IBRD as % of Total	3.40	19.60	19.80	33.40	63.80	17.20
2. IDA as % of Total	0.01	0.02	0.01	0.01	0.01	0.01
3. IBRD+IDA as % of Total	3.41	19.62	19.81	33.41	63.81	17.21
DOD-to-Exports Ratios						
1. Long-Term Debt(PPG+PNG) /	132.57	268.67	267.54	286.41	359.70	345.00
2. IMF Credit/Exports	0.00	19.68	17.12	16.46	16.49	10.66
3. Short-Term Debt/Exports	29.61	22.94	21.63	34.47	38.71	38.54
4. LT+IMF+ST DOD/Exports	162.18	311.30	306.27	369.36	414.90	394.21
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	45.10	121.56	103.90	101.31	114.03	121.64
2. IMF Credit/GDP	0.00	8.91	6.65	5.82	5.23	3.76
3. Short-Term Debt/GDP	10.07	10.38	8.40	12.19	12.27	13.59
4. LT+IMF+ST DOD/GDP	55.17	140.85	118.94	130.65	131.53	138.99
Debt Service /Exports						
1. Public & Guaranteed LT	24.43	21.20	20.38	15.89	13.68	47.99
2. Private Non-guaranteed LT	1.92	13.89	18.72	20.90	19.65	18.77
3. Total Long-Term Debt Service	26.35	35.09	39.10	36.79	33.32	66.76
4. IMF Repurchases+Serv. Chgs.						
5. Interest only on ST Debt						
6. Total (LT+IMF+ST Int.)						

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Cyprus

Cyprus is a small economy with a population of 687,000 and a per capita income of $6,580 in 1988 (using *World Bank Atlas* methodology). The economy is very open with exports and imports averaging 50 percent of GDP in recent years. The economic structure is diversified: industry contributes 27 percent of GDP and employs 38 percent of the labor force; the service sector contributes about 66 percent of GDP and employs 45 percent of the labor force. Rapid growth in exports of agricultural and manufactured products played an important role in past development; tourism, however, remains the dominant foreign exchange earner in the economy.

Cyprus has a long history of good economic performance characterized by high growth, low unemployment and reasonable price stability. The economy recovered rapidly from the severe recession created by the 1974 dislocations when GDP fell by 30 percent from 1973 levels, industrial output fell by almost 50 percent and a third of the labor force was unemployed. By 1978 the prewar output level was regained and full employment was restored. Continued gains in output and incomes have been recorded in the last decade. Led by a strong annual real growth in tourism of almost 10 percent per annum, GDP growth has averaged 6.0 percent per annum. This growth has been accompanied by substantial investment in infrastructure and in social provision: medical care and education are, for the most part, free.

The economy's resilience and strength is largely a reflection of local adaptability and flexibility—attributes which have been repeatedly demonstrated. A drought in Europe in the early seventies provided opportunities for the economy to expand potato production for export. Civil strife in Lebanon enabled Cyprus to become a Mediterranean center for transshipment and re-export trade—a position the country hopes to exploit further in line with its expanded links with the European Community. Rapidly rising incomes in Middle Eastern oil-exporting countries opened large markets for Cypriot light manufactures (clothing, footwear, cigarettes); as oil prices have fallen in the last three years, Cyprus has adroitly—and successfully—shifted exports to other markets.

Good performance is attributable to positive and flexible private sector performance as well as to appropriate and timely government policies. In particular, when private domestic demand was severely depressed in the aftermath of 1974, an expansionary budget policy resulting in large public sector deficits and financed by external capital played key roles in re-activating the economy. Although these deficits and the resulting debt burden have always proved manageable, their legacy does constrain the latitude for macroeconomic manoeuver.

In January 1988, Cyprus entered into a Customs Union Agreement with the European Community (EC). The agreement envisages the phasing out of tariffs and other restrictions on trade between Cyprus and the EC in a large number of agricultural products and most industrial products over a period of ten years.

Recent Developments

Cyprus is completely dependent for its sources of energy on imports—primarily crude oil and petroleum products; in 1985 these constituted about 20 percent of merchandise imports. The sharp fall in oil prices in 1986, coupled with the effects of dollar devaluation in raising the dollar prices of internationally traded manufactured goods, has resulted in a terms of trade boost to domestic income of about 1 percent annually since 1986. Partly because of this, but also because Cyprus has taken advantage of the substantial global recovery in trade in goods and services, the economy has been enjoying something of a boom.

Between 1987-89 consumption (particularly private consumption) grew rapidly at about 8 percent per annum. Investment (both public and private) made a strong recovery growing at about 18 percent in 1989, after declining by almost 7.5 percent per annum in 1985-86 and growing moderately in 1987-88. As noted earlier, Cyprus successfully increased its export market share in Europe after the sudden decline in demand in

Middle Eastern markets, and exports have grown very rapidly in the last two years at about 14 percent per annum; imports have also surged, paralleling the growth in exports. Despite this, the favorable price trends facilitated a surplus in the current account of the balance of payments of about 1 percent of GDP, on average, in 1987-88, compared with an average deficit of about 5 percent in the previous three years. Strong direct investment inflows have allowed a modest surplus on the overall balance and a consequent increase in foreign reserves.

Monetary and fiscal policies have been expansionary in the last three years with fiscal deficits of about 4 percent of GDP and credit growing at about 15 percent per annum. Despite the strong overall demand pressures, inflation has been below 4 percent. Open unemployment fell to less than 3 percent of the economically active population in 1988 and employers have experienced difficulties in hiring labor.

All sectors of the economy have shown positive and satisfactorily high rates of growth, with particular accelerations in the rates of expansion of manufacturing and agriculture (7 percent and 11 percent, respectively, in 1988, although the rate of growth slowed down to about 3 percent and 2 percent, respectively, in 1989). Within the services sector, above average performance was exhibited by the subsectors which are directly related with tourism, offshore activities and the provision of professional services abroad.

Development Issues

Cyprus is a small, open, island economy with a scarcity of water, limited agricultural land, and few mineral deposits. Although the people of the island have shown remarkable ingenuity and resourcefulness in overcoming adversity and exploiting opportunities, they are continually pressed to discover and secure competitive niches to maintain satisfactory growth in their incomes. Recently these challenges have become more acute. The impending internal unification of the EC has made more urgent the need to raise competitiveness in the agricultural and industrial sectors, while seeking new avenues to take advantage of the opportunities offered. The very tight domestic labor market, coupled with the fact that entrants to the labor force are increasingly better educated, dictates a gradual shift to skill-intensive, high productivity, and high value-added occupations and activities. The fiscal system is recognized to be in need of overhaul as it lacks a broad-based consumption tax, relies excessively on import duties (which will be phased out under the agreement with the EC), and has complex and multiple provisions for income tax, which has led to significant tax evasion. Moreover, undeveloped domestic financial markets have led the government to regularly seek external financing for its deficits in order to avoid crowding out private borrowers; this practice entails considerable risk. Finally, infrastructure, utility and environmental investments are required to sustain the growth process: further energy investments are required to maintain pace with rapidly expanding demand, rural roads need to be upgraded, and the press of tourism has created serious environmental difficulties in water provision and conservation as well as in sewage disposal.

The government is well aware of these development challenges and has taken action on several fronts. It has already introduced changes to the basic income tax laws to make them more equitable and to reduce their burden; it has announced the introduction of a VAT, and it has indicated that it intends to seek non-bank domestic financing for budget deficits, thus deepening the domestic financial markets. Projects, including one with IBRD participation, have been announced (or are starting to be implemented) to increase electricity supply and deal with water and sewage problems.

The most difficult challenge lies, perhaps, with maintaining a competitive edge in rapidly changing external and domestic circumstances of the island. The government's most recently commissioned review of manufacturing potential indicated that traditional export lines, including clothing and footwear, continued to enjoy comparative advantage. The need exists, however, for the modernization of production, distribution and marketing. A Council for the Promotion of Exports has been established to assist in filling this need.

More generally, the government has recently undertaken a comprehensive review of development strategies and has issued a revised five-year plan for 1989-93.

Medium-Term Prospects

Provided the government is successful in carrying through with its intended fiscal and structural reforms, the major difficulties with achieving and sustaining internal balance over the medium term will be resolved. Moreover, the structure of external earnings is sufficiently diverse not to portend the emergence of a serious external constraint in the next two-three years. The net effect of customs-union with the EC on the trade balance may well be positive during the early years of the transition period as "rules of origin" provisions for Cypriot clothing and textiles have been relaxed and this should provide a strong stimulus to exports. Although current account deficits will develop if consumption and investment maintain their recent rapid growth, the government appears alert to the dangers of excessive domestic over-heating. In sum, the medium-term outlook must be considered good.

External Debt. Cyprus' external outstanding medium- and long-term debt declined from $1.4 billion in 1987 to about $1.3 billion in 1988 and also in 1989. Most of this debt has been acquired by the public sector. The debt to GDP ratio is now about 30 percent of GDP, while the long-term debt to export ratio is about 56 percent. Both magnitudes are within prudent bounds. The debt service ratio to exports was estimated to be about 12 percent in 1988—again, a fairly low proportion by international comparisons.

Multilateral lenders other than the IBRD—particularly the European Investment Bank, the Resettlement Fund of the Council for Europe, the International Fund for Agricultural Development, and the Kuwait Fund—have become an increasingly important source of finance for Cyprus. Cyprus has also been successful in mobilizing resources from the international money markets at relatively good terms. The IBRD's share in medium- and long-term debt outstanding and disbursed fell from about 51 percent in 1975 to about 7-8 percent in 1986-88, and decreased to slightly over 2 percent in 1989, as a result of prepayments to the Bank of about $70 million.

The government's fiscal reform has as part of its explicit objectives making greater use of domestic savings, rather than external borrowing, for financing deficits. Indeed, the government is acutely aware that a small open economy like Cyprus cannot afford to become highly indebted if it is to maintain the ability to respond swiftly to changing circumstances.

CYPRUS

Mid-1988 Population (mils.)	0.687
1988 Per Capita GNP in US$:	6,260

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	11.5	5.9	8.5	5.6
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	..
Agriculture	..	..	9.6	7.4	7.2	7.1	..	1.9	2.3	10.9	1.6
Industry	..	..	33.6	27.4	27.5	26.9	..	15.8	2.8	6.4	3.4
(of which Manufacturing)	..	..	17.5	15.4	15.5	15.2	..	13.1	4.3	6.8	3.0
Services	..	..	56.8	65.1	65.4	66.0	..	11.3	8.0	9.1	6.9
Resource Balance	..	..	-17.8	-0.2	-2.5	-6.2	..	..	..	..	..
Exports of GNFS	..	..	45.3	47.4	48.2	52.4	..	21.0	7.5	13.3	16.3
Imports of GNFS	..	..	63.1	47.5	50.7	58.5	..	17.4	4.1	16.2	23.1
Total Expenditures	..	..	117.8	100.2	102.5	106.2	..	11.3	4.4	9.8	9.1
Total Consumption	..	..	80.5	73.5	74.6	75.3	..	7.2	5.3	9.3	7.3
Private Consumption	..	..	66.9	59.6	60.7	62.0	..	7.9	5.4	9.7	8.2
General Government	..	..	13.7	13.9	13.8	13.4	..	4.4	4.8	7.6	3.4
Gross Domestic Investment	..	..	37.8	25.3	26.7	29.6	..	24.9	1.9	11.3	14.5
Fixed Investment	..	..	34.2	23.3	23.9	27.1	..	27.6	1.5	7.9	17.8
Changes in Stocks	..	..	3.6	2.1	2.9	2.5	..	..	..	..	..
Gross Domestic Saving	..	..	20.0	25.2	24.2	23.4	..	37.9	8.9	1.1	-1.2
Net Factor Income	..	..	1.6	0.1	0.2	0.2	..	..	..	..	..
Net Current Transfers	..	..	1.5	0.7	0.6	..	..	..	..	..	..
Gross National Saving	..	..	23.1	26.0	24.9	..	..	32.8	7.4	1.1	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	..	1,226	1,779	1,930	2,037	..	11.5	5.9	8.5	5.6
Capacity to Import	..	..	477	843	933	1,082	..	18.3	7.9	10.8	15.9
Terms of Trade Adjustment	..	..	-20	0	-22	-28	..	..	..	..	..
Gross Domestic Income	..	..	1,206	1,779	1,908	2,009	..	10.6	6.1	7.3	5.3
Gross National Product	..	..	1,245	1,781	1,933	2,042	..	11.7	5.7	8.6	5.6
Gross National Income	..	..	1,225	1,781	1,911	2,014	..	10.8	5.9	7.3	5.4

			(1987 = 100)				Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	69.7	96.1	97.3	100.0	103.4	107.3	3.2	7.8	4.8	3.4	3.8
Wholesale Prices (IFS 63)	80.0	104.9	100.3	100.0	..	..	4.0	9.0	3.1	..	..
Implicit GDP Deflator	62.0	92.4	96.1	100.0	103.2	108.0	..	11.1	6.4	3.2	4.6
Implicit Expenditures Defl.	64.3	93.2	95.9	100.0	104.4	109.3	..	11.4	5.9	4.4	4.8

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	0.7	0.4	1.1
Labor Force	..	..	..
Gross Natl. Income p.c.	..	10.1	4.7
Private Consumption p.c.	..	7.2	4.3
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	1.5	0.7
Marginal Savings Rates:			
Gross National Saving	..	..	28.8
Gross Domestic Saving	..	..	31.5
ICOR (period averages):	..	..	5.1

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	40.2	34.7	26.0	..
Industry	27.5	29.6	33.5	..
Services	32.3	35.8	40.5	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
Clothing	..	..	..	..	..	..	79	82	79	143	160	..
Footwear	..	..	..	..	..	..	33	27	28	33	35	..
Portland Cement	..	..	..	..	..	..	36	2	7	10	13	..
Paper products	..	..	..	..	..	..	19	12	6	8	7	..
Manufactures	..	..	..	..	..	..	79	82	79	143	160	..
Other Products	..	..	..	..	..	..	174	122	144	125	122	..
Total Exports FOB	..	..	..	..	..	..	420	327	343	462	497	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	110	124	151	173	204	..
Fuel and energy	..	..	..	..	..	..	222	225	160	182	168	..
Other Consumer Goods	..	..	..	..	..	..	110	110	121	150	176	..
Other Intermed. Goods	..	..	..	..	..	..	543	523	588	687	874	..
Capital goods	..	..	..	..	..	..	216	269	255	290	438	..
Total Imports CIF	..	..	..	..	..	..	1,201	1,251	1,275	1,482	1,860	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,009	1,220	1,429	1,801	2,112	..
Merchandise (FOB)	489	418	451	567	645	..
Non-Factor Services	520	802	979	1,235	1,466	..
Imports of Goods & NFS	1,358	1,426	1,493	1,755	2,170	..
Merchandise (FOB)	1,079	1,123	1,139	1,327	1,667	..
Non-Factor Services	279	303	353	428	503	..
Resource Balance	-349	-206	-63	46	-58	..
Net Factor Income	34	8	5	4	7	..
(interest per DRS)	29	67	78	95	93	..
Net Current Transfers	33	22	24	26	25	..
(workers' remittances)	24	16	17	19	0	..
Curr. A/C Bal. before Off. Transf.	-282	-176	-34	76	-26	..
Net Official Transfers	41	19	21	17	28	..
Curr. A/C Bal. after Off. Transf.	-242	-157	-13	94	2	..
Long-Term Capital Inflow	217	113	169	38	55	..
Direct Investment	85	58	46	52	62	..
Net LT Loans (DRS data)	108	74	131	20	-30	..
Other LT Inflow (Net)	24	-19	-9	-34	23	..
Total Other Items (net)	60	19	5	-66	16	..
Net Short Term Capital	32	-5	32	37	92	..
Capital Flows N.E.I.	0	0	0	0	0	..
Errors and Omissions	28	24	-27	-103	-76	..
Changes in Net Reserves	-36	25	-162	-66	-72	..
Net Credit from the IMF	-11	-3	0	..	..	..
Other Reserves Changes	-25	28	-162	-66	-72	..
As Share of GDP:						
Resource Balance	-16.2	-8.5	-2.1	1.2	-1.4	..
Interest Payments	1.4	2.8	2.5	2.6	2.2	..
Current Account Balance	-13.1	-7.3	-1.1	2.1	-0.6	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	368	595	753	874	928	1,124
Reserves incl. Gold (mil. US$)	639	745	932	1,096	1,116	1,308
Official X-Rate (LCUs/US$)	0.35	0.61	0.52	0.48	0.47	0.49
Index Real Eff. X-R Base 1980	100.00	91.16	87.70	83.15	81.52	..
GDP (millions of current US$)	2,154	2,415	3,085	3,700	4,266	4,453

I. Budget (specify level)	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Current Receipts	21.5	25.3	26.6	28.0	..	..	19.5	11.6	..	..	..
Current Expenditures	23.6	26.7	27.6	26.7	..	..	20.0	5.6	..	..	..
Current Budget Balance	-2.1	-1.4	-1.0	-1.3	..	..	25.1	-20.5	..	..	..
Capital Receipts	..	..	..	..	..	..	75.0	..	..	..	..
Capital Expenditures	6.6	5.0	3.3	2.5	..	..	7.7	-12.0	..	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-8.7	-6.5	-4.3	3.8	..	..	12.3	-8.8	..	..	..
Official Capital Grants	1.9	0.8	0.7	..	..	..	23.0	..	..	..	..
External Borrowing (net)	1.7	2.7	1.9	2.1	..	..	30.2	..	..	..	..
Domestic Non-Bank Financing	..	..	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	5.1	2.9	1.7	1.7	..	..	-0.3	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	108	74	131	20	-30	13	398	937	1,193	1,411	1,280	1,342
Official Creditors	24	67	84	116	48	18	163	460	650	941	830	876
Multilateral	19	63	86	115	45	10	124	409	592	871	765	800
of which IBRD	8	6	-5	2	-19	-61	58	95	98	121	92	31
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	5	3	-1	1	3	8	39	50	58	70	66	76
Private Creditors	84	7	47	-96	-78	-5	235	477	543	470	449	466
Suppliers	-2	-2	-7	-6	0	5	36	25	19	14	14	19
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	108	74	131	20	-30	13	398	937	1,193	1,411	1,280	1,342
IMF Credit	-4	-3	0	0	0	0	39	0	0	0	0	0
Net Short-Term Capital	32	-5	32	37	92	..	108	409	421	597	719	672
Total incl. IMF & Net ST	136	66	163	58	62	..	545	1,346	1,614	2,008	1,998	2,014

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	14.59	10.17	8.17	8.59	7.18	2.28
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	14.59	10.17	8.17	8.59	7.18	2.28
Share of LT Debt Service						
1. IBRD as % of Total	13.95	8.67	10.86	9.24	16.01	22.05
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	13.95	8.67	10.86	9.24	16.01	22.05
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	35.22	69.33	75.70	71.55	56.07	..
2. IMF Credit/Exports	3.45	0.00	0.00	0.00	0.00	..
3. Short-Term Debt/Exports	9.55	30.27	26.72	30.29	31.48	..
4. LT+IMF+ST DOD/Exports	48.22	99.60	102.42	101.84	87.55	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	18.49	38.80	38.67	38.12	30.00	30.14
2. IMF Credit/GDP	1.81	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/GDP	5.01	16.94	13.65	16.14	16.84	15.09
4. LT+IMF+ST DOD/GDP	25.32	55.74	52.31	54.26	46.84	45.23
Debt Service /Exports						
1. Public & Guaranteed LT	5.26	11.87	12.16	13.72	12.01	..
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	..
3. Total Long-Term Debt Service	5.26	11.87	12.16	13.72	12.01	..
4. IMF Repurchases+Serv. Chgs.	1.62	0.24				..
5. Interest only on ST Debt	1.39	2.07	1.82	1.86	2.05	..
6. Total (LT+IMF+ST Int.)	8.27	14.19	13.97	15.58	14.06	..

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Djibouti

Djibouti became independent in 1977. It is small, only 23,200 square kilometers, but occupies a strategic location in the Horn of Africa. The vast majority of its 400,000 to 450,000 inhabitants live by poor nutritional and health standards. Djibouti has received some 60,000 refugees and immigrants from Somalia and Ethiopia. This has created severe economic and social problems. Life expectancy is low and infant mortality high, despite a significant improvement over the past decade, when they improved from 42 to 47, and from 147 to 115, respectively. While there is considerable uncertainty about its GNP per capita, the UN classifies Djibouti among the least developed countries.

Djibouti has come a long way from a nomadic tradition toward a more modern economy. The economy is, nevertheless, fragile and highly dependent on external assistance. Agriculture and industry are little developed, owing to the harsh climate, high production cost, and limited natural resources and domestic skills. The tertiary sector dominates the economy, contributing nearly 70 percent to GDP. Its mainstay are services provided to the French military personnel stationed in Djibouti, and trade with neighboring countries. Other activities are related to the traditional role of Djibouti as a regional center due to its port facilities, private banking and telecommunication services, and, to a lesser extent, international airport and railroad to Addis Ababa. Merchandise exports of local origin are insignificant, and the country depends heavily on imported food and consumer goods. Djibouti has one of the most liberal economic regimes in Africa. Its currency is freely convertible and has been pegged to the U.S. dollar since 1949 with a view to enhancing Djibouti's role as a regional trade and service center. However, the economy is distorted by a highly skewed income distribution, and high wage and price levels.

Recent Economic Developments

Djibouti's GDP declined by an average of 2.7 percent per annum between 1984 and 1987, as compared to an average growth of 3 percent during 1978-82. The drop in economic activity, combined with the influx of refugees, has led to acute unemployment. The economy was severely hurt by the decline in demand for goods and services from the expatriate community due to the appreciation of the Djibouti Franc in 1985-86, in addition to the recession in private housing construction since 1984. The economic situation improved moderately in 1988 owing to more frequent stops of the French navy and the depreciation of the U.S. dollar. However, the economy suffered a setback in 1989 due partly to the flood that affected about half of the population in the capital. With an estimated population increase of 6 percent a year, of which 3 percent is due to a high influx of immigrants and refugees, per capita consumption declined by over 30 percent between 1984 and 1988.

The external current account deficit (after net official transfers) improved substantially from 12 percent of GDP in 1984 to an estimated 4 percent in 1987 owing to a reduction in imports and a significant increase in investment income and unrequited transfers. This helped bring the overall balance of payments into surplus despite a decline in net capital flows as a result of an increase in debt payments. Accordingly, gross foreign exchange reserves increased to an equivalent of 3 months of imports in 1988. On the fiscal front, the budgetary deficit remained high. This led the government to initiate, since 1987, certain austerity measures with support from France. As a result, the overall deficit (including grants) declined gradually to reach around 4 percent in 1988.

Djibouti's external debt outstanding and disbursed (DOD) rose from US$96 million in 1985 to US$163 million at the end of 1989, or 40 percent of GDP, due to heavy borrowing in the early 1980s to finance public investment projects. Fifty percent of the external debt is owed to Arab creditors. IDA shares about 16 percent of total DOD, followed by France (15 percent) and AfDB (13 percent). Although, most external borrowing was on highly concessional terms, Djibouti's debt service payments quadrupled from

US$4 million in 1985 to US$15 million in 1989, representing about 10 percent of budgetary revenues, including grants.

Economic and Sectoral Policy Initiatives

Recognizing the difficult financial situation, the government has decided to curtail the budgetary deficit. This was reflected in the 1989 budget, in which a number of austerity measures have been adopted to contain expenditures, i.e., the recent implementation of a new pay scale and the reduction of housing allowances to school teachers. On the revenue side, efforts were made to improve tax collection by strengthening tax administration and calling for a national effort to pay all taxes. In the parastatal sector, the government has decided to privatize the hotel company and the dairy products plant which have faced serious losses in recent years. An audit report has been prepared for the airport authority and a rehabilitation program is being considered.

The Djibouti government has become more cautious in undertaking new projects and is relying more on grants in financing public investment. An Interministerial Planning Commission (IPC) has been created to coordinate external aid to Djibouti. The role of this commission remains, however, rather limited; the government is considering measures to reinforce it and to expand its role to include the formulation of a multi-year investment program.

The government is seeking ways to promote activities that could contribute to sustained economic growth and provide permanent jobs to its population. While continuing to strengthen the service sector, the government is now emphasizing development of the manufacturing sector. It has obtained assistance from UNIDO to promote small and medium-scale industries. The development of an export-oriented industry by following the Mauritian model is under consideration. A committee, with participation from the private sector, has been set up to examine the possibility of creating an export processing zone in the existing free trade zone at the port and to review measures which could improve Djibouti's external competitiveness, including freely negotiated wages and minimal labor regulations for the zone. In agriculture, government continues to give priority to fisheries and foodcrop development, despite the scarcity of arable land and water.

The government confers high priority to human resource development through strengthening the education and training system and improving health and living conditions. Wells have been built in some areas of the hinterland to provide water to nomads and their herds. To stop decertification, a project to save the remainder of the Day Forest and pilot projects for desert plants are being implemented.

Medium-Term Outlook

Although the economic outlook is uncertain, a change in economic policy is urgently needed in order to stop the declining trend in economic activity and to generate job opportunities for the population. In the medium term (1990-95), the most likely prospects are for a real GDP growth accelerating moderately from nearly 1 percent in 1990. Most growth is likely to be generated by the secondary sector and the recovery of some service activities, in particular transport and commerce, assuming an internal adjustment to reduce distortion in wages and prices. This, in turn, would require budgetary discipline through wage compression and reductions in other expenditures, and a more aggressive approach to making Djibouti more competitive in terms of production cost and labor productivity. With a projected natural population growth rate of 3 percent a year, total per capita consumption will very likely continue to decline for a few years, but private per capita consumption could begin to increase by 1995.

Djibouti will continue to be highly dependent on external assistance, both financial and technical. Future external financing requirements to meet needed import payments and debt service obligations are projected to rise, compared with US$42 million a year in 1985-89. Given Djibouti's limited capacity to service debt, external financing would have to be on very concessionary terms. Technical assistance would continue to be needed, but reoriented to strengthening administrative capacity, aid coordination, and institution building. Studies and workshops would be undertaken to examine wage structure and labor market, development possibilities, and to prepare an action program to implement reform measures necessary to improve Djibouti's long-term development prospects.

DJIBOUTI

Mid-1988 Population (mils.) ..
1988 Per Capita GNP in US$: ..

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988e*	*1989e*	*1965-73*	*1973-80*	*1980-88*	*1988e*	*1989e*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	..	0.9	-0.8
Net Indirect Taxes	..	..	..	16.0	15.6	15.2	..	..	..	..	..
Agriculture	..	..	..	2.4	2.4	2.4	..	..	..	0.5	-2.0
Industry	..	..	..	15.1	15.1	15.4	..	..	..	1.3	1.0
(of which Manufacturing)	..	..	..	4.1	4.1	4.2	..	..	..	1.0	0.0
Services	..	..	..	66.5	66.9	67.0	..	..	..	1.5	-0.6
Resource Balance	..	..	..	-19.4	-20.1	-23.0	..	..	..	..	..
Exports of GNFS	..	..	..	47.8	48.0	46.7	..	..	..	1.3	-3.6
Imports of GNFS	..	..	..	67.2	68.1	69.7	..	..	..	-2.3	2.5
Total Expenditures	..	..	..	119.4	120.1	123.0	..	..	..	-1.1	2.2
Total Consumption	..	..	..	100.8	104.5	104.6	..	..	..	1.7	-0.2
Private Consumption	..	..	..	65.2	70.4	71.0	..	..	..	..	..
General Government	..	..	..	35.6	34.1	33.6	..	..	..	..	..
Gross Domestic Investment	..	..	..	18.6	15.5	18.5	..	..	..	-15.9	18.0
Fixed Investment	..	..	..	17.4	14.4	17.4	..	..	..	..	..
Changes in Stocks	..	..	..	1.3	1.2	1.1	..	..	..	..	..
Gross Domestic Saving	..	..	..	-0.8	-4.5	-4.6	..	..	..	..	..
Net Factor Income	..	..	..	4.1	..	..	..	..	..	..	..
Net Current Transfers	..	..	..	-3.1	..	0.0	..	..	..	..	..
Gross National Saving	..	..	..	0.3	..	..	..	..	..	..	..

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988e*	*1989e*	*1965-73*	*1973-80*	*1980-88*	*1988e*	*1989e*
Gross Domestic Product	..	..	..	..	..	..	..	..	..	0.9	-0.8
Capacity to Import	..	..	..	..	..	..	..	..	..	-3.1	-2.7
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	-1.2	-0.3
Gross National Product	..	..	..	..	..	..	..	..	..	..	..
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

	(1987 = 100)						*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988e*	*1989e*	*1965-73*	*1973-80*	*1980-88*	*1988e*	*1989e*
Consumer Prices (IFS 64)	75.1	81.3	96.1	100.0	..	..	..	..	3.8	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	..	83.8	96.6	100.0	105.0	108.0	..	..	..	5.0	2.9
Implicit Expenditures Defl.	..	83.5	96.5	100.0	107.6	110.2	..	..	..	7.6	2.4

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population 1/	8.1	5.1	6.0
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	..	..	..
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	..	..	..	..
Industry	..	..	..	..
Services	..	..	..	..
Total	100.0	100.0	100.0	100.0

Notes:

1/ Reflecting high immigration from neighboring countries. Natural population growth rate is about 3% a year.
e= estimated data

National accounts estimates are tentative and are based on the findings of the November 1988 Bank economic mission. Only growth rates and percentage shares are presented here for analytical purposes pending discussion with the Government.

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988e	1989e
X.FOOD	..	..	..	..	..	..	..	4	4	5	5	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	26	28	35	37	..
Total Exports FOB	..	..	..	..	..	..	..	30	32	40	42	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	51	53	56	67	..
Fuel and energy	..	..	..	..	..	..	..	20	13	14	11	..
Other Consumer Goods	..	..	..	..	..	..	..	92	96	104	115	..
Other Intermed. Goods	..	..	..	..	..	..	..	14	15	16	17	..
Capital goods	..	..	..	..	..	..	..	42	31	33	29	..
Total Imports CIF	..	..	..	..	..	..	..	219	207	222	239	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988e	1989e
Exports of Goods & NFS	..	151	164	178	..	..
Merchandise (FOB)	..	30	32	40	..	..
Non-Factor Services	..	121	132	139	..	..
Imports of Goods & NFS	..	245	235	251	..	..
Merchandise (FOB)	..	219	207	222	..	..
Non-Factor Services	..	26	28	29	..	..
Resource Balance	..	-94	-71	-73	..	..
Net Factor Income	..	12	13	16	..	..
(interest per DRS)	1	2	3	3	4	4
Net Current Transfers	0	-12	-12	-12	..	..
(workers' remittances)	0	0	0	0	..	..
Curr. A/C Bal. before Off. Transf.	..	-95	-70	-69	..	..
Net Official Transfers	..	52	48	54	..	..
Curr. A/C Bal. after Off. Transf.	..	-42	-21	-15	..	..
Long-Term Capital Inflow	..	32	39	33	..	..
Direct Investment	..	..	..	..	..	..
Net LT Loans (DRS data)	8	30	20	20	12	13
Other LT Inflow (Net)	..	2	19	13	..	..
Total Other Items (net)	..	16	-15	-9	..	..
Net Short Term Capital	..	0	0	0	..	..
Capital Flows N.E.I.	0	0	0	0	..	..
Errors and Omissions	..	16	-15	-9	..	..
Changes in Net Reserves	..	-6	-3	-10	..	..
Net Credit from the IMF	..	0	0	0	..	..
Other Reserves Changes	..	-6	-2	-9	..	..
As Share of GDP:						
Resource Balance	..	-27.8	-19.5	-19.4	..	..
Interest Payments	..	0.7	0.9	0.9	1.0	1.0
Current Account Balance 1/	..	-28.0	-19.2	-18.3	..	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	..	51	54	64	64	59
Reserves incl. Gold (mil. US$)	0	51	54	64	64	59
Official X-Rate (LCUs/US$)	177.72	177.72	177.72	177.72	177.72	177.72
Index Real Eff. X-R Base 1980	..	..	..	..	..	..
GDP (millions of current US$)	..	..	..	..	..	..

Notes:

e= estimated data

1/ Excluding net official transfers

Budget	Share of GDP (%) 1980	1985	1986	1987	1988p	9 Budget	Growth Rates 1980-84	1986	1987	1988e	9 Budget
Current Receipts 1/	..	40.2	36.4	36.7	34.3	36.5	..	-2.9	3.6	-0.9	8.6
Current Expenditures	..	46.8	44.8	41.9	40.8	40.0	..	2.8	-3.9	3.3	-0.1
Current Budget Balance	..	6.6	8.4	5.2	6.5	3.4	..	37.4	-24.3	32.9	-46.0
Capital Receipts 2/	..	12.9	11.3	10.9	11.3	11.2	..	-6.1	-0.3	9.5	1.3
Capital Expenditures	..	10.7	10.0	11.5	9.0	9.5	..	0.3	18.9	-17.0	7.7
Adjustments	..	-0.3	-0.6	-0.8	-0.3	0.5	..	..	..	..	..
Overall Deficit	..	4.0	6.5	5.0	4.0	2.2	..	74.7	-20.7	-16.2	-42.4
Official Capital Grants 3/	..	16.0	15.0	15.9	14.5	14.8	..	1.0	8.7	-3.0	4.2
External Borrowing (net)	..	3.0	3.8	4.5	3.5	2.5	..	-34.4	20.6	-17.0	-26.9
Domestic Non-bank Financing	..	-1.0	-0.1	3.7	0.3	0.7	..	..	..	..	..
Domestic Bank Financing	..	1.9	2.7	-3.2	0.2	-1.0	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	8	30	20	20	12	13	26	96	119	153	157	163
Official Creditors	3	30	22	22	13	15	21	90	114	150	156	162
Multilateral	2	14	13	15	9	10	2	39	54	76	81	84
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	0	5	4	7	5	2	0	7	11	21	25	26
Bilateral	1	16	9	8	4	5	19	50	61	74	74	77
Private Creditors	5	0	-2	-2	-2	-2	5	7	5	3	1	1
Suppliers	0	0	0	0	0	0	0	1	1	0	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	8	30	20	20	12	13	26	96	119	153	157	163
IMF Credit	0	0	0	0	0	0	0	0	0	0	0	0
Net Short-Term Capital	..	0	0	0	..	..	6	48	6	29	26	28
Total incl. IMF & Net ST	..	30	20	20	..	..	32	144	125	182	183	191

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	7.08	9.55	13.49	15.92	16.15
3. IBRD+IDA as % of Total	0.00	7.08	9.55	13.49	15.92	16.15
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	2.44	2.78	1.60	1.50	1.48
3. IBRD+IDA as % of Total	0.00	2.44	2.78	1.60	1.50	1.48
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	58.22	66.15	77.75	..	..
2. IMF Credit/Exports	..	0.00	0.00	0.00	..	..
3. Short-Term Debt/Exports	..	29.11	3.32	14.70	..	..
4. LT+IMF+ST DOD/Exports	..	87.33	69.47	92.45	..	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	..	28.40	32.92	41.09	39.71	40.34
2. IMF Credit/GDP	..	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/GDP	..	14.20	1.65	7.77	6.65	7.04
4. LT+IMF+ST DOD/GDP	..	42.60	34.58	48.85	46.36	47.38
Debt Service /Exports						
1. Public & Guaranteed LT	..	2.49	3.99	6.34	..	..
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	..	..
3. Total Long-Term Debt Service	..	2.49	3.99	6.34	..	..
4. IMF Repurchases+Serv. Chgs.	..				..	..
5. Interest only on ST Debt	..	1.82	1.05	0.66	..	..
6. Total (LT+IMF+ST Int.)	..	4.31	28.31	6.99	..	..

Notes:

1/ Including budgetary grants
2/ Including extra-budgetary grants
3/ Memo item only as grants are already included in current and capital receipts.
p= preliminary data

Dominican Republic

The Dominican Republic is a small, densely populated country situated in the eastern two-thirds of the island of Hispaniola. Its GNP per capita was US$720 in 1988. In the last two decades a relatively high rate of population growth, together with a marked acceleration of internal migration, transformed the population from an essentially rural to a mainly urban one. More recently, population growth has declined to 2.4 percent per annum. However, the growth of the labor force has increased to 3.5 percent per annum and it is estimated that it will grow more than 3 percent per year until the turn of the century. The country continues to have one of the highest infant mortality rates in Latin America, i.e., 70 per 1,000 live births, and 13 percent of its children suffer from malnutrition. Moreover, since the late 1970s, the incidence of gastrointestinal diseases, which strike small children predominantly, has tripled and reached epidemic proportions. Educational standards likewise have deteriorated. Some 35 percent of the primary school age population receives no formal education and three-fourths of the children who attend grade school fail to complete six years of education.

While the country's foreign trade is substantial relative to its GDP, the economy traditionally has been dependent on a few rent-based exports. In recent decades, the four main commodity exports (sugar, gold alloys, ferronickel and coffee) accounted for over four-fifths of total exports. In the mid-1970s, however, a significant process of export diversification got underway. During 1975-82, the value of manufactured exports expanded 18.5 percent per annum. Moreover, between 1975 and 1985, tourism receipts multiplied no less than eight-fold and remittances increased from US$90 million to over US$300 million. By the mid-1980s, tourism receipts exceeded the value of sugar exports by almost one and a half times and equalled close to three-fourths of that of merchandise exports, while remittances surpassed the value of sugar exports by nearly one-third; the share of traditional exports fell to about 40 percent of total exports in 1985.

The country was affected in the 1980s by large and prolonged external shocks that curtailed its import capacity and income. Rather than adopt policies commensurate with the changing external conditions, the authorities strove to cushion domestic consumption from the effects of those shocks. But the deterioration of the terms of trade and the upturn in real international interest rates did not prove temporary. From 1981 to 1986, per capita real expenditure dropped 12 percent, income diminished 10 percent, and GDP contracted close to 6 percent. By 1986, open unemployment had soared to 27 percent of the labor force and the external debt to GDP ratio had climbed to 67 percent. The misalignment of relative prices, together with the financial deterioration of state enterprises and misallocation of public expenditure, led to a marked decline in the efficiency of public investment and deterioration of social conditions.

Recent Economic Developments

In 1987, the economy recovered sharply, as real GDP rose 8 percent on the strength of a massive increase in public investment. However, inflation escalated to 25 percent by the end of 1987, the current account balance of payments deficit rose to 7 percent of GDP, and the import coverage of gross international reserves dropped to about one month. At the end of 1988, inflation climbed to the highest rate recorded in this century (58 percent) while real GDP scarcely increased (1.1 percent) and per capita consumption declined 4 percent. The inflationary upsurge was a major restraint on economic recovery, as it eroded the incentives to save and invest.

In 1989 economic activity rebounded. According to central bank estimates, which do not include value added in tourism or free trade zones, GDP rose close to 4 percent. The appreciable increase in economy activity in 1989 was accompanied by an exacerbation of external disequilibrium as occurred in 1987, when a pronounced but unsustainable recovery was triggered by expansionary fiscal and monetary policies. The loss of gross international reserves, which dropped to less than three weeks of imports, together with the large accumulation of arrears on external debt obligations explains a good part of the increase in GDP—and implies that growth is likely to wane in 1990 unless the economic policy stance is adjusted expeditiously. In particular, a highly appreciated currency at the official exchange rate has curtailed sharply the profitability of traditional exports and is eroding that of the free trade zones. At the same time, the central bank is unable to remain current on debt service payments to preferred external creditors at the official exchange rate, which remains about 40 percent below the parallel rate. Finally, the economy is facing increasing difficulties in the operations of the financial system.

At the end of 1989, the yearly rise in the consumer price index eased to 41 percent. However, annualized inflation was 63 percent in the last quarter of 1989. The persistently high inflation was accompanied by a contraction of about 14 percent in real minimum wages in 1989. However, partial data on average wages suggests that the decline in average real salaries was less steep, while workers' incomes in the informal sector appear almost to have kept pace with inflation. According to preliminary central bank data, the rate of unemployment declined to 17 percent, from about 19 percent in 1988.

The value of merchandise imports climbed 5 percent in 1989, owing to a 14 percent increase in quantum. The value of merchandise exports increased merely 4 percent, despite a 14 percent rise in average dollar export prices. The 10 percent real drop in commodity exports also reflected the steady real appreciation of the peso at the official rate, the close control exercised by the authorities over these exports and the maintenance of domestic sugar prices below international prices. As a result, the trade deficit widened to US$750 million in 1989 from about US$700 million in 1988. In contrast, the local payments of free trade and tourism receipts each rose some 45 percent. The value of the latter virtually equalled that of commodity exports. The dynamism of these two activities was as responsible for the upturn in activity as the expansion of domestic absorption. Their growth was spawned in large measure by the marked rise in the real official exchange rate between mid-1987 and mid-1988 (over 45 percent), and subsequently, by the authorities tolerance, especially in the case of tourism, of the channeling of the receipts therefrom through the parallel market, which remained highly competitive.

On a commitment basis the current account balance of payments deficit widened to US$290 million from US$220 million in 1988, while a radical turnaround in short-term capital flows in response largely to expectations of large exchange rate adjustments curtailed the capital account surplus to US$90 million versus US$359 million the year before. The overall balance of payments, on a commitment basis, thus deteriorated to a deficit of close to US$200 million vis-á-vis a surplus of somewhat less than US$140 million in 1988. Arrears to external creditors shot-up, largely in reflection of the freezing of interest payments to commercial banks.

Development Issues and Growth Prospects

The key to sustained growth lies in restoring macroeconomic stability and in improving efficiency in resource use. This implies adjustment and harmonization of policies which impinge on relative prices; public finances, and money creation and credit allocation, and maintaining the real effective exchange rate at a value that would allow tradeables to expand at their potential rate of growth. Where public sector domestic bank borrowing is excessive, a capital market scarcely exists, real interest rates are negative and effective protection is exceptionally high. The remedy is then a freeze in net overall public sector borrowing from the domestic banking system, the institution of competitive interest rates, and close monitoring of the competitiveness of the exchange rate. The level of effective protection must also be reduced radically and equalized across products, in conjunction with a commensurate adjustment of the exchange rate, to restore growth to its potential. The growth benefits here would stem from the curtailment of rent-seeking activities as well as from the alignment of the domestic relative border prices of tradeables with those prevailing in the international economy.

In order both to eliminate recourse to the creation of domestic credit to finance public sector operations and further curb price distortions without discouraging private sector investment, public sector savings would need to be increased to the amount required to cover at least the value of domestically financed investment projects plus the counterpart funds for foreign financed projects, mainly through the gradual elimination of price subsidies (especially those for petroleum products and electricity). On the other hand, the rate of growth of public sector capital formation would need to be moderated considerably. In addition, there is a need to reverse the sharply negative net external loan disbursements by rescheduling arrears and current obligations to the Paris Club; obtaining a new multi-year rescheduling agreement with commercial banks; accessing available external financing from multilateral and bilateral lenders and implementing a comprehensive debt-equity conversion program. The target would be to finance the public sector investment program exclusively through public sector savings and net external financing, i.e., to cover the balance of payments financing gap attributable to the public sector solely through an increase in net external financing, particularly concessionary loans and grants. To complement these policies, the government would need to liberalize its foreign investment laws so as to mobilize direct foreign investment in amounts sufficient to cover the gap between private savings and investment and contribute to the gradual replenishment of the central bank's holdings of external assets.

To further enhance the efficiency of resource use, there is a need to reallocate progressively expenditures from subsidies (e.g. electricity, petroleum, university education and housing) for middle and upper income groups, unproductive employment creation and capital outlays with low productivity to expenditure for competitive wages for high- and mid-level staff, adequate maintenance and capital formation that promotes the production of tradeables, raises factor productivity and improves social services for the poor. At the same time, legislation constraining of private sector activities requires reconsideration.

With an appropriate medium term policy framework, there is ample potential for sustained economic growth. Real GDP would depend largely on a turnaround in export performance. A major increase in domestic resource mobilization also would underpin growth-oriented adjustment, mainly on the strength of a projected increase in the public sector savings effort. At the same time, the creation of an appropriate incentive system would improve the efficiency of investment. This, in conjunction with the enhanced growth of exports, also would permit the restoration of per capita domestic consumption to adequate levels by the middle of the next decade. The current account deficit of the balance of payments is likewise projected to decline to sustainable levels over the medium term, from 4.7 percent of GDP in 1988.

The country's external debt, including non-guaranteed private and short term obligations, amounted to close to US$4 billion, or about 60 percent of GDP, in 1989. Interest payments on the debt on a commitment basis were equivalent to 6.3 percent of GDP, and debt service amounted to 29 percent of total exports. The World Bank Group's share of total debt outstanding and disbursed stood at 6.4 percent at the end of 1988. Debt service payments to the Bank represented 7 percent of total debt service but less than 2 percent of total exports.

DOMINICAN REPUBLIC

Mid-1988 Population (mils.)	7
1988 Per Capita GNP in US$:	680

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	9.7	4.8	2.0	1.1	3.8
Net Indirect Taxes	9.5	..	..	..	..	..	..	..	..	..	..
Agriculture	23.2	22.2	20.2	18.8	18.3	..	10.3	2.6	0.9	-1.2	2.2
Industry	21.9	28.1	28.3	29.8	29.4	..	14.4	4.9	2.6	-0.6	4.3
(of which Manufacturing)	15.5	17.0	15.3	14.8	14.1	..	12.0	4.7	1.0	-3.6	1.8
Services	54.9	49.7	51.5	51.4	52.3	..	7.3	5.8	2.2	2.9	4.1
Resource Balance	-4.0	-3.8	-8.3	-10.0	-5.4	-7.8	..	..	..	..	..
Exports of GNFS	16.3	21.9	19.2	28.0	35.6	32.3	..	..	2.3	8.7	..
Imports of GNFS	20.3	25.7	27.4	38.0	41.0	40.1	..	..	0.2	-2.3	..
Total Expenditures	103.9	103.8	108.3	110.0	105.4	107.8	..	..	1.3	-2.0	..
Total Consumption	96.5	81.7	83.1	84.7	82.6	82.0	9.1	4.7	0.7	-5.1	..
Private Consumption	77.6	73.4	75.5	78.5	76.3	..	..	..	0.6	-6.2	..
General Government	18.9	8.3	7.6	6.2	6.3	..	-3.6	3.8	2.3	9.5	..
Gross Domestic Investment	9.8	22.1	25.1	25.3	22.8	25.8	19.2	5.3	3.4	8.2	..
Fixed Investment	10.0	21.2	23.9	24.7	22.5	..	20.3	5.1	3.9	10.4	..
Changes in Stocks	-0.3	0.9	1.2	0.6	0.3	..	..	..	..	..	..
Gross Domestic Saving	5.9	18.3	16.9	15.3	17.4	18.0	30.8	4.1	8.4	47.3	..
Net Factor Income	-1.4	0.3	0.3	-6.1	-6.9	..	..	..	..	..	..
Net Current Transfers	0.0	1.2	3.0	5.1	7.1	5.3	..	..	..	..	..
Gross National Saving	4.5	19.8	20.2	14.4	17.7	..	..	..	6.4	41.7	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	5,512	11,614	16,321	19,426	19,635	20,375	9.7	4.8	2.0	1.1	3.8
Capacity to Import	1,346	..	5,404	5,432	6,265	..	..	..	1.6	15.3	..
Terms of Trade Adjustment	-137	..	698	0	361	..	..	..	..	..	..
Gross Domestic Income	5,375	..	17,019	19,426	19,996	..	..	..	1.8	2.9	..
Gross National Product	5,701	..	15,979	18,249	17,826	18,510	..	..	1.2	-2.3	3.8
Gross National Income	5,564	..	16,677	18,249	18,187	..	..	..	0.9	-0.3	..

			(1987 = 100)				*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	37.1	78.6	86.3	100.0	144.4	..	3.4	10.2	18.4	44.4	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	40.6	79.1	86.8	100.0	144.0	207.0	2.9	9.3	16.9	44.0	43.8
Implicit Expenditures Defl.	37.1	78.5	83.7	100.0	142.3	..	..	..	17.9	42.3	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.9	2.5	2.4
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	-1.4
Private Consumption p.c.	..	..	-1.7
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	0.1
Marginal Savings Rates:			
Gross National Saving	32.8	21.1	9.2
Gross Domestic Saving	29.3	13.4	20.2
ICOR (period averages):	..	5.2	9.8

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	59.2	51.9	45.7	..
Industry	13.5	14.6	15.4	..
Services	27.3	33.5	38.9	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.SUGAR	135.5	112.9	85.0	100.0	102.3	104.3	326	208	172	165	162	205
X.MET.X	59.6	86.9	69.0	100.0	95.9	100.7	101	121	78	115	309	359
X.BEV.COFFEE	88.2	106.1	105.1	100.0	93.0	94.9	77	91	116	63	67	64
X.BEV.COCOA	60.7	80.9	93.0	100.0	113.8	115.5	51	65	68	75	69	49
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	407	253	289	293	288	256
Total Exports FOB	..	..	..	..	..	..	962	739	722	711	894	933
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	..	..	..
Fuel and energy	..	..	..	..	..	..	464	427	251	378	322	355
Other Consumer Goods	..	..	..	..	..	..	362	254	398	382	350	361
Other Intermed. Goods	..	..	..	..	..	..	486	395	396	515	578	602
Capital goods	..	..	..	..	..	..	208	210	306	316	358	370
Total Imports CIF	..	..	..	..	..	..	1,520	1,286	1,351	1,591	1,608	1,689

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	88.7	91.5	97.8	100.0	97.4	101.5
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,271	1,323	1,408	1,557	1,746	1,615
Merchandise (FOB)	962	739	722	711	893	933
Non-Factor Services	309	584	686	845	852	682
Imports of Goods & NFS	1,919	1,560	1,636	1,952	1,975	1,967
Merchandise (FOB)	1,520	1,286	1,352	1,592	1,608	1,686
Non-Factor Services	399	275	284	360	367	281
Resource Balance	-647	-238	-228	-395	-229	-351
Net Factor Income	-277	-226	-250	-306	-318	-158
(interest per DRS)	121	140	187	106	151	113
Net Current Transfers	200	242	242	260	328	350
(workers' remittances)	183	242	242	260	328	315
Curr. A/C Bal. before Off. Transf.	-725	-222	-236	-441	-218	-160
Net Official Transfers	5	114	29	95	91	80
Curr. A/C Bal. after Off. Transf.	-720	-108	-207	-346	-128	-80
Long-Term Capital Inflow	349	186	142	60	249	66
Direct Investment	93	36	50	89	106	127
Net LT Loans (DRS data)	346	166	89	46	8	103
Other LT Inflow (Net)	-90	-17	3	-75	135	-163
Total Other Items (net)	326	-3	118	153	1	..
Net Short Term Capital	278	-159	-51	142	-129	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	48	156	169	11	130	0
Changes in Net Reserves	45	-75	-53	134	-122	..
Net Credit from the IMF	-76	76	7	-21	-66	-95
Other Reserves Changes	121	-150	-61	155	-57	..
As Share of GDP:						
Resource Balance	-9.8	-5.3	-4.2	-7.8	-5.0	-5.3
Interest Payments	1.8	3.1	3.4	2.1	3.3	1.7
Current Account Balance	-10.9	-4.9	-4.3	-8.7	-4.7	-2.4
Memorandum Items:						
Reserves excl. Gold (mil. US$)	202	340	376	182	254	164
Reserves incl. Gold (mil. US$)	279	346	383	191	261	171
Official X-Rate (LCUs/US$)	1.00	3.11	2.90	3.84	6.11	6.34
Index Real Eff. X-R Base 1980	100.00	77.66	72.66	60.66	52.56	69.96
GDP (millions of current US$)	6,631	4,489	5,433	5,052	4,625	6,654

I. Central Government Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	13.1	15.2	14.0	15.4	..	..	1.7	3.1	30.7	..	..
Current Expenditures	11.1	13.2	11.5	9.7	..	..	5.7	-3.3	1.0	..	..
Current Budget Balance	2.0	2.0	2.5	5.7	..	..	..	..	..	..	..
Capital Receipts	0.3	0.4	0.1	0.1	..	..	-23.2	-80.4	90.4	..	..
Capital Expenditures	4.9	3.2	3.9	8.1	..	..	-6.3	38.9	145.0	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-2.6	-0.8	-1.3	-2.3	..	..	..	..	..	..	..
Official Capital Grants	6.1	114.3	29.6	95.0	..	..	..	..	..	..	..
External Borrowing (net)	93.7	495.2	81.2	135.9	..	..	..	..	..	..	..
Domestic Non-Bank Financing	..	..	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	..	..	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	353	173	93	59	17	115	1,220	2,689	2,878	3,151	3,216	3,234
Official Creditors	308	149	101	55	24	81	803	1,875	2,050	2,301	2,373	2,388
Multilateral	88	93	51	38	22	40	203	564	649	752	744	788
of which IBRD	37	7	-5	-2	-6	12	66	152	180	219	194	201
of which IDA	0	0	0	0	0	0	18	21	21	21	21	20
Bilateral	220	57	50	17	2	40	599	1,311	1,401	1,549	1,629	1,601
Private Creditors	45	24	-7	4	-6	34	417	814	828	850	843	845
Suppliers	-1	25	5	9	-2	39	3	39	60	82	78	83
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	-7	-7	-4	-14	-10	-12	254	151	146	133	118	121
Total LT	346	166	89	46	8	103	1,474	2,840	3,025	3,284	3,334	3,355
IMF Credit	-65	45	-25	-64	-51	-88	49	297	304	284	218	123
Net Short-Term Capital	278	-159	-51	142	-129	..	480	362	311	275	372	508
Total incl. IMF & Net ST	559	52	13	123	-173	..	2,002	3,499	3,640	3,843	3,923	3,986

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	4.46	5.36	5.96	6.67	5.80	6.00
2. IDA as % of Total	1.20	0.75	0.69	0.64	0.62	0.61
3. IBRD+IDA as % of Total	5.66	6.11	6.65	7.31	6.43	6.61
Share of LT Debt Service						
1. IBRD as % of Total	2.03	9.61	11.32	16.66	15.52	15.21
2. IDA as % of Total	0.04	0.13	0.17	0.10	0.16	0.13
3. IBRD+IDA as % of Total	2.07	9.75	11.50	16.76	15.67	15.34
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	98.48	179.02	181.43	179.65	160.09	155.12
2. IMF Credit/Exports	3.24	18.72	18.26	15.51	10.45	5.66
3. Short-Term Debt/Exports	32.11	22.79	18.64	15.04	17.85	23.51
4. LT+IMF+ST DOD/Exports	133.83	220.53	218.34	210.20	188.40	184.29
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	22.22	63.26	55.67	65.00	72.09	50.42
2. IMF Credit/GDP	0.73	6.62	5.60	5.61	4.71	1.84
3. Short-Term Debt/GDP	7.25	8.06	5.72	5.44	8.04	7.64
4. LT+IMF+ST DOD/GDP	30.20	77.94	66.99	76.05	84.84	59.90
Debt Service /Exports						
1. Public & Guaranteed LT	10.28	12.70	16.35	9.94	11.30	9.82
2. Private Non-guaranteed LT	6.82	1.47	0.92	1.39	0.80	0.97
3. Total Long-Term Debt Service	17.10	14.16	17.27	11.33	12.10	10.79
4. IMF Repurchases+Serv. Chgs.	4.64	3.21	4.10	4.61	3.26	4.78
5. Interest only on ST Debt	3.59	1.75	1.15	0.92	0.76	0.46
6. Total (LT+IMF+ST Int.)	25.32	19.13	27.56	16.86	16.12	16.04

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Ecuador

Long one of the least developed countries in Latin America, Ecuador enjoyed a period of significant prosperity during the seventies. Thanks largely to an oil-driven boom, this small Andean nation of 10 million people achieved sizable economic gains and experienced considerable improvements in social welfare. Despite rapid population growth, real per capita GDP almost doubled during the 1972-82 period, thus propelling Ecuador into the ranks of middle income countries. With the acceleration of the development process there were visible improvements of social indicators, such as increases in educational enrollments, a decline in the infant mortality rate, gains in nutritional standards, and better access to housing and health care.

The large social gains of the seventies, however, were accompanied by a development strategy that exacerbated the structural rigidities in the economy and left the country vulnerable to external shocks . The economy and the government became highly dependent on rising oil revenues, which thwarted diversification and promoted spending. The government significantly increased its role in the economy, as reflected by the rise of its expenditures from 23 percent of GDP in 1973 to 33 percent in 1982. It also embarked on a deficit-financed expansion of aggregate demand that resulted in large increases in both the government's budget deficit and country's current account deficit. These deficits were financed primarily by readily available foreign credits, and as a consequence the level of the total external debt rose by more than tenfold in ten years, from US$600 million in 1973 to US$6.3 billion in 1983.

Besides the increase in the foreign debt, several other factors contributed to the economic difficulties encountered by Ecuador in the 1980s. The appreciation of the real exchange rate during the oil boom stifled the development of non-oil exports and distorted the growth pattern towards home consumption. Price controls discouraged agricultural development. Protection led to the development of a small and inefficient manufacturing sector. Energy and interest rate subsidies along with labor market regulations created incentives for capital intensive development. The policy of earmarking oil revenues constrained the flexibility of fiscal policy to react to changing priorities. Finally, discretionary measures led to an uneven distribution of the benefits from growth.

The vulnerability of the economy became evident in 1982, when commercial banks sharply reduced their sovereign lending. Unable to finance its budget deficit, which had reached 7.5 percent of GDP, the government resorted to money creation and inflation before taking drastic steps in 1983 to curtail public spending. Similarly, after using a significant portion of its reserves to finance a large current account deficit, the authorities sharply devalued the sucre for the first time in ten years. These measures were the first of a series adopted by successive governments in response to the exogenous shocks that buffeted the Ecuadorian economy in the 1980s. As a result of these shocks and shifts in policies, economic growth over the last eight years has averaged less than 2 percent per annum; a highly disappointing performance when compared to the expectations of the 1970s.

Determined to alter the sluggish path of the economy, a new administration came to power in 1984 on a platform to accelerate the reform process and open up the economy. The new government introduced a series of measures to increase the competitiveness of the economy, such as: reducing subsidies; liberalizing international trade; unifying exchange rates; eliminating price controls and introducing greater interest rate and exchange rate flexibility. The government obtained IMF stand-by agreements for 1985 and 1986 and a multi-year rescheduling agreement with both the Paris Club and the commercial banks. The result was resumption of economic growth of around 4 percent in 1984 that continued throughout 1985.

But, just as it appeared that the economy had stabilized and the adjustment program was beginning to succeed, two additional shocks derailed the economic recovery of Ecuador. In early 1986 oil prices declined abruptly, by more than 50 percent. Then, in March 1987, a major earthquake damaged large segments of the Trans-Ecuadorian oil pipeline and interrupted oil production and exports for almost six months. Since oil exports in 1985 accounted for 65 percent of total exports and oil revenues for 60 percent of government revenues, the oil price collapse led to significant losses to Ecuador. The initial fall in revenues amounted to over US$1 billion, or 34 percent of export earnings. The loss was equivalent to a negative terms of trade shock of 8 percent of GDP.

The economic difficulties of 1986 and 1987 placed heavy pressures on the government to expand public expenditures. Acceding to political demands, the government adopted more expansionary policies that generated large imbalances in the economy. Although part of the deterioration was due to the loss of oil revenues, changes in policies contributed to a widening of the budget deficit to 9.6 percent of GDP in 1987; the current account deficit reached 11.7 percent of GDP. Subsequently, the inflation rate during 1988 surged to an unprecedented 82 percent, and the premium between the official exchange rate and the free market rate reached 100 percent.

Concerns about economic management in Ecuador, and the intractability of the debt overhang, prevented the government from reaching a final agreement with the commercial banks for additional external finance in 1987. This prompted the government to suspend payments on its foreign debt; a policy that strained its relations with foreign creditors. and led to rapid accumulation of arrears. By the time a new administration took office in August 1988, arrears, along with all of the other imbalances in the economy, left few policy options.

Recent Economic Developments

The new government moved quickly to arrest the rapid deterioration of the economy. It adopted an Emergency Economic Program designed to reduce fiscal and external imbalances through a series of budgetary and commercial policy measures. They included: a devaluation of the sucre; the introduction of dual exchange rates and a crawling peg in the intervention market; the re-introduction of import controls; increases in tariffs and import deposits; reduction and postponement of fiscal expenditures; an administrative tax reform aimed at reducing evasion; doubling of subsidized energy prices; and substantial increases in public utility rates. The government also announced its intention not to rely on monetary financing of public deficits.

The net effect of the program was to contain the deficit of the non-financial public sector to 5.1 percent of GDP in 1988 and to sharply reduce the current account deficit to 6.4 percent of GDP. The government, however, continued the policy of external arrears, in part because of the scarcity of foreign exchange reserves. Lack of timely servicing of the foreign debt made it difficult for the government to obtain full international support. Nevertheless, the government continued its reform process in 1989 by adopting a comprehensive tax reform that standardized tax treatment, reduced marginal tax rates, expanded the value added tax base, and eliminated many tax preferences. It also reduced some prior import deposit requirements and began to dismantle some of the temporary controls introduced in the previous year. As a result, the stabilization gains continued throughout 1989. Inflation declined to 52 percent over the year and interest rate move to positive real levels. The budget deficit was restricted to 2.2 percent of GDP, as tax revenues recovered by 3 percent of GDP.

Following the gains during 1989, and after the resumption of partial interest payments to commercial banks and full normalization of payments to official creditors, the country successfully negotiated international agreements, including a Paris Club rescheduling. The ability to gain the support of the official organizations for its economic program provided the government with the basis to begin serious negotiations with the commercial banks on a possible debt reduction agreement. The government has described its plan to gradually pursue, over the next two years, a set of structural reforms that include significant trade liberalization, fundamental fiscal reform, a more open policy to foreign investment, and some additional deregulation of financial markets. The adoption of such reforms would bode well for the future economic prospects of Ecuador, specially if buttressed by an agreement to resolve Ecuador's external debt problems. Recent successes in several fronts raised the expectations that the government would continue to reduce both inflation and the public sector deficit in 1990, while economic growth recovered during the year. But initial indications for 1990 show that the weak institutional capacity of Ecuador is making it difficult to adhere to its plans. Inflation during the first few months of 1990 has been higher than anticipated, and rising government expenditures are placing pressures on the ability of monetary policy to fulfill original targets.

Debt Management

One of the main impediments to the resumption of stable economic growth in Ecuador is the uncertainty over the eventual resolution of the country's external debt problem. As a result of past borrowing practices, including rescheduling, new money packages, and more recently arrears, today Ecuador has one of the highest per capita external debts in Latin America. At the end of 1989, total public and publicly guarantee debt, excluding arrears, stood at US$9.6 billion, equivalent to 93 percent of GDP. In the last three years the country has made only partial interest payments on its commercial bank debt of US$5.7 billion. Full interest payments of the total debt would claim close to 10 percent of GDP or 35 percent of exports. Estimates show that the country will continue to confront major challenges fulfilling its financial obligations in the medium term, specially since commercial banks are unwilling to extend any further credits to Ecuador. Uncertainty over how these challenges will finally be met generates risks that hinder the full recovery of investment and the resumption of sustainable economic growth.

Recent developments in the direction of official support for debt reduction have raised the hopes for an easing of the debt burden in the near future. In fact, following the shift in the debt strategy sanctioned by major creditors, the government has been actively pursuing an agreement with the commercial banks to reduce Ecuador's debt. In August 1989, the government made its first proposal aimed at achieving an overall reduction in the stock of commercial bank debt by approximately 70 percent. The proposal included an exchange for discounted bonds and/or a par bond with an equivalent reduced interest rate option. The proposal was presented at a time when relations between Ecuador and the commercial banks were strained as a result of the arrears and the seizure of Ecuadorian deposits by Citibank. The banks did respond with a counter proposal until March 1990, after an IMF program was in place and after there was a better understanding of the conditions under which the international financial institutions would make debt reduction enhancements available. The banks' counter proposal accepted in principal a multi-year framework for debt reduction, but outlined only a restricted first year buy-back plan. The government of Ecuador responded by offering a follow-up multi-year proposal that incorporated basic features of the buy-back plan to a slightly modified version of its original proposal. The prospects are that these negotiations will continue. The government has established a record of partial interest payments to the banks, and has been implementing important implemented important stabilization and structural reform policies for two years.

Key Development Issues

Ecuador's most important challenge is to reestablish a pattern of sustained economic growth that will ensure a rising living standards for its rapidly growing population. With population growth averaging 2.8 percent a year, the country will face growing social and economic pressures unless it is capable of reversing the recent decline in real per capita income. A major threatening factor to future economic growth is the prospect that, under current estimates, oil production and exports will start to decline within five years and its known reserves could be depleted in fifteen years.

In order to establish the basis for sounder economic growth, Ecuador should continue to reduce the involvement of the public sector in the economy and should pursue policies that eliminate the distortions and selective biases in the economy. The country is currently burdened with an over-extended public sector that is involved in numerous economic decisions and generates high levels of public spending without an adequate tax base. Ecuador is also highly dependent on few commodities for its exports and remains highly vulnerable to external shocks.

The current government recognizes the need for reform and has already began to introduce policies to achieve greater efficiency. The authorities recently began to implement their announced intentions to eliminate quantitative restrictions on external trade, to gradually reduce the average tariff rate, to dismantle price controls, to raise domestic energy prices to international levels, and to pursue a more extensive fiscal reform. Although recent progress has been encouraging, much remains to be done.

Fiscal issues. Reform of the budget process is required, including a drastically reduce policy of earmarking revenues, and a broadening of the tax base. Reform of the public sector is key to consolidating the stabilization process. Heavily dependent on oil revenues, the government's budget and automatic allocative decisions are highly vulnerable to fluctuations in the world price of oil. The lack of a well-specified budget process and an appropriate framework overseeing public enterprises can lead to discretionary policies and loss of budgetary control. Reform of the budget also entails provisions to reduce subsidies to local governments, which should rely more on their own capacity to generate resources to finance local expenditures. Overall, public institutions should become more efficient and the practice of overstaffing should be curtailed.

Agriculture. The recent pursuit of a more appropriate exchange rate policy and easing of price controls has partially reversed past trends. Over the last few years agriculture has grown much faster than other sectors in the economy. Contributing to this growth were the import liberalization measures adopted in the mid-1980s and the improvements in agricultural credit facilities and marketing. Despite these gains, agricultural potential is still restricted by price and export controls on key commodities and other structural impediments, such as transportation and financial market regulations.

Industry and labor. Policies in these areas are also in need of substantial revision. In the past, protectionist trade and interest rate policies, as well as highly restrictive labor regulations, resulted in considerable distortions and inefficiencies in the industrial sector. Ecuador's small manufacturing sector is characterized by an oligopolistic structure, saddled with excess capacity, dependent on imported inputs, and highly capital intensive. In order to enhance the efficiency of the economy it is important to reduce sector-specific incentives and establish a more sector neutral policies. The recent announcement by the government of plans to eliminate quantitative restrictions and to reduce the level and dispersion of tariffs marks a propitious beginning. Policy reform has not yet focused on labor regulations, which currently work against employment.

Energy. The country must deal with the prospect of falling oil exports in the next few years. Oil has been the driving force of Ecuador's economic growth since 1972, and, unless an effective medium-term investment petroleum program is implemented soon, oil will diminish in importance. Petroleum production has been in the range of 100 million-110 million barrels per year since 1984, with 70 percent of that being exported. Increased exploration has yielded positive results recently in expanding the level of known reserves. The need for increased oil development is clear. The government has recently taken some important steps by establishing a schedule to increase domestic energy prices to international levels and by passing a new law that reorganizes the national petroleum company. Incentives under the new law will allow foreign oil companies and multilateral institutions to play important roles in the future development of Ecuador's petroleum resources.

Social sectors. Despite the economic advances made since the 1960s, poverty remains a major social problem and portions of the society are still outside the economic mainstream. Tackling the social problems in general will entail policies that generate employment. In education, more resources should be redirected to better quality and to improving access for marginal rural groups, particularly to the native population. Health, nutrition, and population policies should also be geared towards improving equity in access to care, increasing the efficiency of service delivery, and improving the quality of service. In particular, there is a need to promote the extension of primary health care services to rural areas, while revising hospital investment plans. Ecuador must also address factors leading to its high population growth and environmental degradation. Finally, institutional and price reforms in the water supply sector are needed in order to ensure efficient use of resources and to generate the funds for required investments.

Prospects

Given its current external debt burden, sustained economic growth in Ecuador will require sound macroeconomic policies, concerted structural reform, a favorable international economic environment, and substantial support from the international financial community, including some form of debt relief. Even under these conditions, growth over the next few years is not likely to exceed 5 percent per annum. The major constraining factor will be the availability of domestic and foreign savings for productive investment.

The most promising sectors of economy in the near future are still those linked to agricultural and natural resources. Although agriculture has performed relatively well in the recent past, there is still substantial room for expansion, particularly in the areas of non-traditional products and processed foods. In the natural resources area, the country has began to tap its potentially vast mineral resources and to develop its forestry sector. Tourism should still continue to grow, given Ecuador's natural attractions. Finally, with the restructuring of the economy resources are likely to be shifted to light manufacturing industries.

Even under favorable conditions, such as with international oil prices and interest rates in the US$16-18 per barrel and 8-9 percent ranges, respectively, and with the government pursuing appropriate policies, renewed economic growth will only be consistent with the fulfillment of Ecuador's international monetary obligations if it there is some form of debt reduction. In the absence of the latter, arrears to commercial banks will be inevitable. Hence, it is important for the government to continue improving its policy performance, specially in the areas of fiscal control, monetary stability, maintaining a competitive exchange rate, trade reform, and removing price controls. These measures are necessary to ensure both sound economic performance and an improvement in the country's debt situation.

ECUADOR

Mid-1989 Population (mils.)	10.496
1989 Per Capita GNP in US$:	953

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989 e/*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	..	7.3	6.7	1.9	12.8	0.5
Net Indirect Taxes	9.9	12.4	8.3	11.4	11.3	..	..	..	..	..	..
Agriculture	27.2	19.7	12.1	15.4	15.0	..	3.9	2.1	4.3	9.1	3.5
Industry	22.4	32.3	38.1	31.8	36.3	..	13.9	5.3	2.2	32.8	-0.7
(of which Manufacturing)	18.5	17.4	17.7	19.5	21.4	..	11.4	10.8	0.6	3.9	3.0
Services	50.4	48.0	49.8	52.8	48.7	..	5.1	9.1	1.1	1.9	2.0
Resource Balance	-3.0	3.2	-0.2	-6.7	-1.9	..	..	..	..	..	..
Exports of GNFS	15.7	24.9	25.2	23.3	26.6	..	14.0	-0.1	5.1	32.9	1.5
Imports of GNFS	18.7	21.7	25.4	30.0	28.5	..	6.9	9.6	-2.6	-10.9	-2.7
Total Expenditures	103.0	96.8	100.2	106.7	101.9	..	5.6	9.4	-0.1	2.7	1.6
Total Consumption	89.2	77.3	74.1	83.8	78.6	..	5.5	9.0	1.2	1.9	-5.2
Private Consumption	80.2	67.0	59.6	71.1	68.0	..	5.3	8.1	1.9	2.5	-5.3
General Government	9.0	10.3	14.5	12.7	10.6	..	7.0	13.4	-2.2	-1.4	-4.0
Gross Domestic Investment	13.8	19.5	26.1	22.9	23.3	..	6.0	10.5	-3.7	6.3	4.9
Fixed Investment	11.1	17.5	23.6	22.8	21.1	..	6.6	11.2	-3.7	-3.9	6.5
Changes in Stocks	2.7	2.0	2.5	0.1	2.1	..	..	..	..	..	..
Gross Domestic Saving	10.8	22.7	25.9	16.2	21.4	..	7.1	8.1	-5.5	43.7	26.3
Net Factor Income	-2.2	-5.7	-5.0	-7.9	-3.5	..	..	..	..	..	..
Net Current Transfers	0.0	0.3	0.0	0.0	0.0	..	..	..	..	..	..
Gross National Saving	8.6	17.3	20.9	8.3	17.9	..	6.3	8.7	-8.3	106.8	-14.1

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	567	1,082	1,676	1,807	2,039	2,053	7.3	6.7	1.9	12.8	0.5
Capacity to Import	143	330	620	421	451	..	8.1	7.3	-4.0	7.1	4.7
Terms of Trade Adjustment	47	-50	259	0	-109	..	..	..	..	..	..
Gross Domestic Income	614	1,032	1,934	1,807	1,931	..	5.9	8.7	-0.4	6.8	2.3
Gross National Product	551	1,020	1,593	1,665	1,967	1,946	7.0	6.8	1.9	18.2	-0.4
Gross National Income	598	970	1,852	1,665	1,859	..	5.6	8.9	-0.6	11.6	-2.2

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	18.6	62.8	77.2	100.0	158.2	277.8	6.4	13.1	30.4	58.2	75.6
Wholesale Prices (IFS 63)	25.9	59.1	76.0	100.0	174.2	..	..	12.5	25.2	74.2	..
Implicit GDP Deflator	17.5	59.7	72.2	100.0	152.7	..	6.1	15.4	31.3	52.7	..
Implicit Expenditures Defl.	15.2	55.7	73.1	100.0	161.6	..	7.5	13.1	34.4	61.6	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.2	2.9	2.8
Labor Force	..	..	..
Gross Natl. Income p.c.	2.4	5.8	-3.3
Private Consumption p.c.	2.0	5.0	-0.9
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.9	1.4	-1.4
Marginal Savings Rates:			
Gross National Saving	30.1	28.6	4.0
Gross Domestic Saving	36.1	31.8	1.0
ICOR (period averages):	..	5.1	10.8

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	54.7	46.8	38.6	..
Industry	19.3	20.3	19.9	..
Services	26.0	32.9	41.6	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
Petroleum	95.2	150.5	156.2	100.0	153.3	141.2	1,563	1,927	983	818	976	1,147
BANANA	98.0	78.4	102.0	100.0	111.8	125.5	237	220	263	267	301	370
COFFEE	55.6	78.3	105.0	100.0	75.0	97.2	132	191	299	192	152	142
FISH	21.2	34.1	78.0	100.0	121.4	100.8	64	169	315	480	510	435
Manufactures	131.6	122.4	56.6	100.0	89.5	107.9	173	145	149	85	81	97
Residual	119.0	91.7	52.4	100.0	114.3	123.8	159	253	177	180	182	162
Total Exports FOB	87.7	113.2	127.2	100.0	127.2	121.9	2,328	2,905	2,186	2,022	2,202	2,353
F. Merchandise Imports												
Food	217.4	126.1	80.4	100.0	76.3	..	91	94	102	125	101	137
Fuel and energy	80.0	34.4	23.2	100.0	23.1	..	222	198	113	294	59	71
Other Consumer Goods	76.3	68.7	90.1	100.0	69.8	..	103	58	72	89	67	57
Other Intermed. Goods	163.9	88.5	91.8	100.0	83.9	..	934	890	851	918	821	982
Capital goods	312.5	87.5	90.6	100.0	85.3	..	926	526	672	732	665	608
Total Imports CIF	221.2	88.5	84.1	100.0	67.0	67.9	2,276	1,766	1,810	2,158	1,713	1,855

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	163.4	184.6	91.7	100.0	89.1	99.3
Merch. Imports Price Index	36.7	84.7	95.6	100.0	105.5	108.2
Merch. Terms of Trade	444.8	218.0	95.9	100.0	84.4	91.8

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	2,865	3,294	2,589	2,449	2,645	2,823
Merchandise (FOB)	2,520	2,905	2,186	2,021	2,203	2,354
Non-Factor Services	345	389	403	428	442	469
Imports of Goods & NFS	2,925	2,175	2,237	2,664	2,191	2,268
Merchandise (FOB)	2,242	1,611	1,631	2,054	1,614	1,685
Non-Factor Services	683	564	606	610	577	583
Resource Balance	-60	1,119	352	-215	454	555
Net Factor Income	-640	-1,050	-1,010	-1,048	-1,145	-1,267
(interest per DRS)	365	735	650	279	296	360
Net Current Transfers	0	80	45	0	0	0
(workers' remittances)	0	0	0	0	0	0
Curr. A/C Bal. before Off. Transf.	-700	69	-658	-1,263	-691	-712
Net Official Transfers	30	80	45	132	97	97
Curr. A/C Bal. after Off. Transf.	-670	149	-613	-1,131	-594	-615
Long-Term Capital Inflow	763	474	773	1,458	766	974
Direct Investment	70	62	70	75	80	80
Net LT Loans (DRS data)	754	238	838	413	351	370
Other LT Inflow (Net)	-61	174	-135	970	335	524
Total Other Items (net)	153	-493	-284	-446	-191	20
Net Short Term Capital	193	-570	-106	..	..	..
Capital Flows N.E.I.	0	0	0	..	..	..
Errors and Omissions	-40	77	-178	..	..	..
Changes in Net Reserves	-246	-130	124	119	19	-379
Net Credit from the IMF	..	121	127	-68	-57	-68
Other Reserves Changes	-246	-251	-2	187	76	-311
As Share of GDP:						
Resource Balance	-0.5	9.2	3.1	-2.0	4.4	5.3
Interest Payments	3.1	6.1	5.8	2.6	2.9	3.5
Current Account Balance	-6.0	0.6	-5.4	-10.7	-5.8	-5.9
Memorandum Items:						
Reserves excl. Gold (mil. US$)	1,013	718	644	491	398	540
Reserves incl. Gold (mil. US$)	1,257	854	806	692	568	707
Official X-Rate (LCUs/US$)	25.00	69.56	122.78	170.46	301.61	526.35
Index Real Eff. X-R Base 1980	100.00	89.28	71.88	55.27	41.52	..
GDP (millions of current US$)	11,733	12,130	11,265	10,603	10,321	10,409

I. Budget (Non-Fin. Pub. Sector)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	27.8	24.6	21.7	21.2	23.9	..	..	..	..	..
Current Expenditures	..	19.8	21.6	24.3	20.4	19.0	..	..	..	..	..
Current Budget Balance	..	8.0	3.0	-2.6	0.8	4.9	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	6.1	8.1	7.0	5.9	7.0	..	..	..	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	1.9	-5.1	-9.6	-5.1	-2.1	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	..	1.4	5.5	7.7	3.0	5.1	..	..	..	..	..
Domestic Non-Bank Financing	..	-3.8	-0.1	2.2	1.4	-2.7	..	..	..	..	..
Domestic Bank Financing	..	0.5	-0.3	-0.2	0.7	-0.3	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	702	347	875	1,383	686	893	3,300	7,160	8,095	9,917	10,324	11,172
Official Creditors	223	144	505	717	269	297	1,314	2,053	2,507	3,283	3,409	3,711
Multilateral	75	114	495	266	237	94	323	824	1,405	1,838	1,933	2,032
of which IBRD	24	16	126	95	125	29	109	269	467	689	756	761
of which IDA	0	-1	-1	-1	-1	-1	36	35	34	34	33	32
Bilateral	148	30	10	451	32	203	991	1,229	1,102	1,445	1,476	1,679
Private Creditors	479	203	370	666	417	596	1,986	5,107	5,588	6,634	6,915	7,461
Suppliers	83	65	41	-103	-45	61	203	306	328	516	379	391
Financial Markets 1/	396	138	329	769	462	535	1,783	4,801	5,260	6,118	6,536	7,070
Private Non-guaranteed	52	-107	-31	-29	..	..	1,122	97	59	30	..	..
Total LT	754	240	844	1,354			4,422	7,257	8,154	9,947		
IMF Credit	0	86	83	106	59	-68	0	360	486	438	405	325
Net Short-Term Capital	193	-570	-106	5	0	..	1,575	980	490	436	394	215
Total incl. IMF & Net ST	947	-244	821	1,465			5,997	8,597	9,130	10,821		

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	2.46	3.71	5.73	6.93		
2. IDA as % of Total	0.81	0.48	0.42	0.34		
3. IBRD+IDA as % of Total	3.28	4.19	6.14	7.27		
Share of LT Debt Service						
1. IBRD as % of Total	2.06	4.24	7.30	8.20	6.40	6.40
2. IDA as % of Total	0.06	0.08	0.10	0.17	0.16	0.12
3. IBRD+IDA as % of Total	2.11	4.32	7.40	8.30	6.40	6.40
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	149.76	217.84	316.15	404.90	389.70	395.90
2. IMF Credit/Exports	0.00	10.82	18.59	19.87	15.27	11.46
3. Short-Term Debt/Exports	53.34	30.81	18.90	17.70	14.80	7.60
4. LT+IMF+ST DOD/Exports	203.10	259.47	355.68	440.40	419.70	414.60
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	37.69	59.68	73.45	106.90	139.90	112.10
2. IMF Credit/GDP	0.00	2.96	4.32	4.62	3.92	3.12
3. Short-Term Debt/GDP	13.42	8.44	4.87	4.70	5.30	2.10
4. LT+IMF+ST DOD/GDP	51.11	71.08	82.63	116.20	150.60	117.40
Debt Service /Exports						
1. Public & Guaranteed LT	18.94	29.17	33.43	42.80	63.40	59.40
2. Private Non-guaranteed LT	11.55	4.15	1.62	..	..	..
3. Total Long-Term Debt Service	30.48	33.32	35.05	42.40	63.40	59.40
4. IMF Repurchases+Serv. Chgs.		0.62	1.36	1.30	4.00	4.30
5. Interest only on ST Debt	3.66	1.84	2.33	2.00	2.20	1.90
6. Total (LT+IMF+ST Int.)	34.14	44.89	57.47	45.80	69.20	65.60

Egypt

Egypt has the largest population and the second largest economy (after Saudi Arabia) in the Middle East. Its 53 million people are crowded into the Nile Delta and valley and their numbers are growing by well over 1 million per year or by 2.8 percent—an important long term policy issue. A high proportion of the population, nearly 45 percent, live in cities, as arable land is quite limited—less than 3 percent of total area—with a density higher than that of Bangladesh or Indonesia. The arable land, however, is exceptionally productive, enjoying virtually 100 percent irrigation, daily sunshine and the potential for three crops per year. Agriculture remains the single most important economic sector, but its importance declined from 30 to 20 percent of GDP between 1974 and FY89.[1]

Next in importance are trading (18 percent) and public administration (15 percent), while the share of manufacturing remains around 13 percent. The most dynamic sector has been petroleum, which doubled its share from 3 percent to 6 percent of GDP. The share of tourism is still small (slightly over 1 percent), but the sector has grown rapidly over the last three years. Per capita GDP has stagnated around US$650 since FY86.

Egypt's population has benefitted from a comprehensive social welfare system created after the 1952 revolution. Following widespread land distribution and business nationalization, the government instituted a set of policies designed to provide minimum living standards for all its population. For the most part, these remain in effect today, including rigid rent controls, subsidized food distribution, free education and health care as well as the provision of a wide range of other public services at low cost. While these policies succeeded in raising the living standards of the lowest income groups, they have contributed to the severe economic distortions now plaguing the economy.

Although poverty remains a problem, indigence, under-nutrition and homelessness are not widespread. Since 1960, life expectancy at birth has increased from 41 to 61 years, reflecting among others the dramatic decline in child death rates from 34 to 11 per thousand, while the average daily caloric intake has increased from 88 percent to nearly 130 percent of minimum requirements.

In the decade after 1974, the economy grew rapidly, by 8 percent per annum, stimulated by an extraordinary increase in foreign earnings from oil exports, workers' remittances, Suez Canal earnings, tourist receipts and foreign aid. Commodity exports other than oil, however, fell as the real effective exchange rate appreciated and the domestic market absorbed more of what was produced locally. The economy, despite its rapid growth, provided insufficient employment opportunities as the two most dynamic sectors (oil production and the Suez Canal) employ less than 1 percent of the labor force. Over half of the additional labor force was hired by the government itself, contributing heavily to the increasing budget deficit.

In spite of the quite rapid overall economic growth, the Egyptian economy was not able to create the conditions for self-reliance and self-sustaining development. The rigid price control system imposed on public enterprises and parts of the private sector created growing distortions and inefficiencies in the use and allocation of economic resources. Although fixed prices avoided stressful adjustment in the living standards of those with access to controlled goods and services, they led to severe inefficiencies, compounded by the strongly inward looking development strategy of the manufacturing sector (largely public owned) which became crucially dependent on increasing imports of raw materials, spare parts and equipment, while earning very little foreign exchange itself.

Thus, by the early 1980s the economy had become heavily dependent on a continuous rapid increase in oil exports and workers' remittances, and when these came to an abrupt halt around FY82-83, the country was little prepared to handle the consequences. In fact, as a result of lower oil prices, declining workers' remit-

1. Fiscal year ends June 30 of specified year.

tances, and a slow growth in Suez Canal and tourism revenues, exports of goods and non factor services expressed in current U.S. dollars fell by 11 percent between FY82 and FY87. In spite of declining foreign exchange earnings, overall economic growth was maintained at 6-7 percent during FY83-85 but at the cost of rapidly worsening balance of payments deficits and a sharp increase in foreign debt. The ever-widening gap between foreign exchange earnings and foreign exchange needs led to an untenable foreign debt situation (total foreign debt close to 140 percent of GDP), growing arrears and eventually to a major debt rescheduling in May 1987. It also drove GDP growth below population growth, beginning FY86 (about 2.3 percent a year) and recovery is not likely in FY90. Among other factors, this contributed to a further increase in unemployment, estimated at over 20 percent of the work force.

In FY89, the resource gap widened to US$5.4 billion, and the current account deficit to about US$3 billion (7 percent of GDP) before grants of US$.6 billion. The balance of payments was adversely affected by exogenous factors (including bad weather and low world oil prices) as well as policy distortions (see below). Total exports of goods declined by 23 percent while the volume of imports remained at the high level of FY88. While substantial progress was made in the fiscal area, and the budget deficit for FY89 was reduced to 16 percent of GDP compared to 20 percent of GDP in FY87 and 23 percent in FY86, almost half of this deficit was still financed through the banking system. Preliminary estimates for FY90 give a similar picture. Inflation has reached about 21 percent on a yearly basis. Without major policy changes, the country's short term prospects remain bleak, with mounting pressures on debt service payments.

Government Economic Policies

In response to the worsening situation, the government initiated a series of policy changes beginning mid-1986. However, they were not implemented rapidly enough to bring the economy back on a satisfactory, balanced growth path. This reflected the very serious dilemma the government faces between the urgent need to adjust the economy and the necessity to maintain social and political stability, a task not made easier by distortions and disequilibria that have accumulated over the last three decades as well as the considerable worsening of the country's terms of trade.

Energy. Between FY86 and FY90 the government increased energy prices by over 330 percent, bringing them closer to the world market price; it has increased electricity tariffs by about 250 percent and tripled the price of fuel oil, the most heavily subsidized petroleum product. The most recent energy price increases occurred in May 1990, ranging from 38 percent for high octane gasoline and electricity to 43 percent for fuel oil and kerosene. In spite of these very substantial increases, however, energy remains highly subsidized, with the weighted average of domestic petroleum prices only reaching 45 percent of world prices after the May 90 increases. The government has also raised the prices of a large variety of other products and services by public companies.

Fiscal Conditions

To improve the budget situation, the government increased taxes on many goods and services and made strides in improving tax administration. It undertook a major reform of custom duties that both reduced the nominal rates of protection and raised additional revenues by reducing exemptions while using a more depreciated exchange rate for custom duty evaluation. Furthermore, it has shown considerable expenditure restraint. By raising prices of basic staples and narrowing the list of subsidized consumption goods, the government has managed to reduce the subsidy bill in the budget by an impressive eight points of GDP over FY82-88; nevertheless, subsidies still amounted to nearly 5 percent of GDP in FY89 and a much larger percentage if implicit subsidies were included. Other recurrent expenditures were reduced by about 10 percent in real terms between FY82 and FY88, notably by reducing central government employment and holding government pay increases below the rate of inflation. These measures caused government expenditures to decline sizably as a percentage of GDP but have not been enough to reduce the budget deficit to a sustainable level.

Foreign Exchange

The government has depreciated the nominal rate of foreign exchange (LE/US$) in two steps by nearly 30 percent since May 1987, mostly by shifting an increasing share of transactions to the free market. In mid-1989, it also adjusted the (highly overvalued) central bank rate by over 50 percent. It also intends to adjust this rate further by over 80 percent this year. Furthermore, the government has undertaken several measures toward decontrolling trade, including allowing all exporters to retain their foreign currency earnings. As indicated below, further adjustments are now necessary.

Agriculture

Substantial progress has been made in adjusting agricultural sector policies. In particular, crop area allotments and delivery quotas at low prices were eliminated for all crops except cotton, sugar cane and half of the rice crop; even for these, producer prices were increased considerably. Agricultural inputs have become widely available at less subsidized prices and private sector marketing and processing of agricultural produce, by-products and inputs has been encouraged. Import/export constraints were removed and foreign trade in many agricultural goods shifted to the free foreign exchange market, which has brought about an impressive increase in fruit and vegetable exports, which now exceed cotton exports in value.

Public Investments

The government has increasingly concentrated public investments on the productive sectors. It initiated a reform of public industries designed to decentralize decision-making. It has substantially reduced the elaborate price controls, although there is still a long way to go. Last but not least, it offered foreign oil companies increasingly flexible and generous terms to encourage more exploration of oil and gas.

Medium-Term Prospects and Issues

As indicated by the adjustments already implemented or outlined in recent official documents, the government is fully aware that Egypt faces a medium-term future with resource scarcity that requires maximum efficiency in the use of these resources. World petroleum prices as well as the expected gradual decline in domestic petroleum production are important determinants of future growth; moreover, the enormous foreign debt overhang will, for many years to come, severely limit the amount of foreign exchange available to Egypt for the financing of its development. On the other hand, many of Egypt's development constraints are policy induced and can be eased through appropriate reforms. Furthermore, Egypt has a substantial potential to revive non-inflationary economic growth with a viable balance of payments. It has a large domestic market, a diversified industrial base, ideal agro-climatic conditions, a favorable geographical location and a large, skilled labor force. Finally, it will continue to enjoy a sizable inflow of external resources, although not at the exceptionally high level enjoyed over the last decade.

In implementing meaningful economic reforms quickly but without jeopardizing social and political stability, much will depend on establishing a new safety net for the poor, one that can protect them from much of the hardship of economic reform. Implementation of such a safety net could considerably ease the government's concern about the possible negative impact of rapid macroeconomic reforms. The other key element will be how much foreign financing the government will be able to mobilize so as to sustain satisfactory overall economic growth.

The main objective of the economic reform program as spelled out by the government in recent official documents is the deregulation of the Egyptian economy in all its aspects and its opening up to market forces, including domestic prices, foreign trade, investment, and public enterprises' management. Once the program is implemented, the present interventionist system will have largely disappeared and in its place will be a decentralized, market-based, outward-oriented economy leading Egypt to a rapid resumption of non-inflationary economic growth.

The government's reform program consists of six major components. Macroeconomic reform aims at bringing balance to the resources flows, curtailing inflation, reducing the trade and budget deficits, and restoring long-term growth and creditworthiness. Public sector reform aims at unifying the regulatory structure rapidly, so that public enterprises will be subjected to the same rules and obligations as private enterprises. The role of government would be limited to that exercised normally by a major shareholder in a large private enterprise. Public enterprises' managers would be required to spin-off nonviable activities and even liquidate non-profitable sub-divisions. The reform would gradually privatize public enterprises, or at least their management; and restructure the remaining public enterprises and introduce tight performance standards, financial and others.

Domestic price liberalization aims over the medium term at nearly full decontrol of price setting in all sectors, public and private with most of the liberalization at the beginning of the period with prices determined by market forces. Foreign trade liberalization aims over the medium term at a complete phase-out of all non-tariff barriers to imports and exports and a reduction in high customs tariffs.

Private sector reform aims at abolishing investment controls (limiting government intervention to the granting of specific investment incentives) and phasing out private sector discrimination in the purchase of inputs from public sector companies. Finally, a Social Fund project aims at mitigating the social impact of the adjustment program, particularly on the poorest segments of the population.

Macroeconomic Reform. Given the large imbalance in the domestic budget and balance of payments, a strong stabilization program is a first priority. The government is considering a program of sharp reduction of the budget deficit, a unification and adjustment of the exchange rates, an increase in interest rates, and other credit policies. Concerning public enterprise reform, the program envisages a fundamental reform of Egypt's industrial public enterprises (IPE). Currently nearly 70 percent of the country's industrial production originates in the public sector; but many of the IPEs are inefficient and produce at low capacity. In spite of heavy import protection they are not very profitable, face financial problems and are heavily indebted. Thus, these enterprises do not contribute as they could to economic growth; they are a burden on the budget which has to provide financing for much of their investments. The reform program focuses on institutional reform, aimed at providing public enterprises' managers with appropriate incentives and greater managerial autonomy coupled with increased accountability; privatization of some public enterprises; and financial and technical restructuring of public enterprises, including asset sales, and divestitures.

Price Policies. Decontrol and reform of prices in the public sector are important not only to overcome deeply ingrained economic distortions and inefficiencies but also to generate additional government revenues and/or reduce government subsidies to public authorities. In principle, all prices in the private sector are free, except for some specific goods and services. However, all prices in the public sector are controlled and, until recently, were often set below production costs, thus contributing to the serious financial difficulties experienced in the past by many public enterprises and authorities. For industrial goods produced by public enterprises, the program foresees as rapid a price liberalization as is compatible with the pace of import liberalization (see below). For energy and power, the government aims to reach international prices for petroleum products and long-run marginal costs for electricity by the end of FY95. In the agricultural sector, the adjustment program would aim at increasing cotton prices to about two-thirds of world prices (the expected optimal level, given Egypt's oligopolistic position in the world market for long staple cotton), and fully decontrolling prices for rice and for agricultural inputs that still remain under control (fertilizer, pesticides and livestock feed). Concerning transport and telecommunications, immediate price liberalization is not a viable option, given the largely monopolistic position of the mostly public enterprises (postal service, railway, ports, telephone and telex); the goal is to reach full-cost prices as quickly as possible with appropriate financial criteria.

Trade Policies. The Egyptian economy is highly protected, particularly through non-tariff barriers (NTB); and somewhat less through customs tariffs. The adjustment program is expected to focus on the phase-out of most NTBs over a period of three years. In addition, a beginning would be made to cut the very high import tariffs and to reduce the range between the lowest and the highest import rates. Customs duty exemptions would also be reduced to a minimum level. Last, but not least, the program foresees the introduction of appropriate safeguard mechanisms that can cushion the negative effects of import liberalization on specific enterprises, which experience serious difficulties in adapting to free trade within the short time span set by the program. On exports, the program foresees a replacement of export bans by export taxes, which in turn would be phased out gradually. At the same time, the system of temporary imports (drawback) would need to be improved.

Private Sector Reform. While the Second Development Plan puts heavy emphasis on the rapid development of private sector activities, there are government policies that hamper and discourage them. The adjustment program proposes up-front actions to remove constraints, including abolition of investment controls and licensing procedures and reduction of discrimination against the private sector in the purchase of necessary inputs. In addition, the program will include measures to phase out public trading monopolies (e.g., cement and fertilizer); the public monopoly on providing job search and placement services would be abolished immediately.

Social Policies. The program calls for the creation of a highly visible emergency Social Fund geared to assist the low income population groups directly affected during the transition period by the macroeconomic reform measures. The fund would finance—on a temporary basis—subprojects selected according to evaluation criteria and procedures designed to ensure that resources are effectively targeted to benefit the poorest segments of the Egyptian society that would be mostly affected by the reform program.

Successful implementation of all or most of the above measures would allow Egypt to overcome gradually the present, severe balance of payments constraints; it would allow the country to resume sustainable overall economic growth sizably above population growth after a two to three year period of virtually no growth. A period of stabilization is inevitable during which the budget and external deficits are brought down by reducing public expenditures and imports. Much will depend on the government's success in gaining the confidence of the private sector which is expected to carry the bulk of the future growth effort, and of donors who will have to maintain a very high level of foreign aid.

External Debt

Egypt's external financing situation has been jeopardized by adverse external developments and deficient domestic policy response. Without a more rapid implementation of the adjustment policies as outlined above, imports, investment and economic growth would have to be cut further to accommodate the scarcity of foreign resources. Even with a tough reform program, speedily implemented, it would be difficult for Egypt to extricate itself from the debt overhang and resume satisfactory growth unless exceptional financing is made available.

Egypt's external debt is large and burdensome. Debt data for end-1988 put total public and publicly guaranteed medium-and long-term debt (including military) at US$42 billion; private non-guaranteed debt at US$1.1 billion; and short-term debt at US$4.5 billion. The total debt of about US$48 billion corresponds to 130 percent of Egypt's GDP in FY88. Debt service obligations during FY87 exceeded 60 percent of exports of goods and services excluding exports of foreign oil companies, but actual payments reached less than 12 percent resulting in increasing arrears that were rescheduled by the Paris Club in mid-May 1987. As a result, in FY88 the debt service ratio declined to about 16 percent, but for lack of further debt rescheduling it increased again to 40 percent in FY89; much of it is in arrears.

Without adequate economic policies, manageable trade balances, and support from the international community, Egypt's external debt service will remain unsustainable. With the likelihood of declining oil production and exports in the mid-90s, the need for stronger measures to reduce imports and diversify exports takes on added urgency.

EGYPT

Mid 1989 Population (mils.)	53.2
1988 Per Capita GNP in US$:	650

	A. Percent Shares of Gross Domestic Product *(at current market prices)*						**B. Real Growth Rates** *(% per annum)*					
	1984	*1985*	*1986*	*1987*	*1988*	*1989*	*81-85*	*1985*	*1986*	*1987*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.9	6.4	2.8	2.5	3.2	1.0
Net Indirect Taxes	3.9	3.6	5.5	4.3	4.8	4.8	-0.4	6.7	2.6	2.5	14.3	1.0
Agriculture	19.3	19.3	19.6	20.2	20.1	20.5	2.4	3.2	2.1	2.1	2.6	3.0
Industry	28.2	27.5	25.3	23.9	23.7	23.6	5.3	8.0	1.5	2.2	2.4	0.3
(of which Manufacturing)	12.7	13.0	12.5	13.3	13.2	13.1	6.0	6.5	3.5	2.1	2.6	0.0
Distribution & Services	48.7	49.6	49.5	51.6	51.4	51.1	8.5	6.9	3.6	2.9	2.9	0.5
Resource Balance	-10.1	-10.3	-9.2	-12.3	-12.1	-13.5	a	a	a	a	a	a
Exports of GNFS	29.0	25.4	19.8	15.7	19.6	16.4	6.1	2.4	-0.9	-12.0	19.4	-7.7
Imports of GNFS	39.2	35.7	29.0	28.0	31.7	30.0	1.4	4.9	-11.2	-19.6	6.9	-1.0
Total Expenditures	110.1	110.3	109.2	112.3	112.1	113.5	4.2	6.5	-1.4	-1.9	1.8	1.9
Total Consumption	82.6	83.6	85.5	93.0	93.2	94.3	3.5	6.2	1.9	2.1	1.9	1.8
Private Consumption	64.6	66.3	68.9	78.6	78.9	80.1	3.4	7.3	2.1	2.9	2.0	2.0
General Government	18.0	17.2	16.5	14.5	14.2	14.2	3.9	1.3	0.7	-2.3	1.3	0.6
Gross Domestic Investment	27.5	26.7	23.7	19.3	19.0	19.2	6.8	-17.5	-17.5	-17.5	-17.5	-17.5
Fixed Investment	26.8	25.2	22.4	20.3	19.0	18.8	7.3	4.1	-12.8	-7.7	-3.6	0.0
Changes in Stocks	0.7	1.5	1.3	-1.0	0.0	0.4	a	a	a	a	a	a
Gross Domestic Savings	17.4	16.4	14.5	7.0	6.8	5.7	15.0	1.6	-20.0	-43.6	16.6	-18.6
Net Factor Income	-2.0	-1.2	-2.2	-0.1	-0.3	-2.9	-25.1	-37.1	86.4	-94.0	171.1	789.0
Net Current Transfers	12.9	10.2	8.5	8.4	9.3	8.7	2.3	-15.8	-13.6	1.0	13.3	-5.6
Gross National Savings	28.2	25.4	20.9	15.3	15.8	11.4	15.8	-3.6	-22.5	-17.8	13.5	-27.4

In millions of LE (at constant 1987 prices)	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*81-85*	*1985*	*1986*	*1987*	*1988*	*1989*
Gross Domestic Product	38,977	41,462	42,604	43,687	45,078	45,528	5.9	6.4	2.8	2.5	3.2	1.0
Capacity to Import	12,135	12,236	10,421	6,878	8,100	7,225	2.2	0.8	-14.8	-34.0	17.8	-10.8
Terms of Trade Adjustment	4,436	4,350	2,603	0	-114	-488	a	a	a	a	a	a
Gross Domestic Income	43,413	45,812	45,207	43,687	44,964	45,040	4.8	5.5	-1.3	-3.4	2.9	0.2
Gross National Product	38,190	40,968	41,682	43,632	44,929	44,200	7.1	7.3	1.7	4.7	3.0	-1.6
Gross National Income	42,626	45,317	44,285	43,632	44,815	43,712	5.8	6.3	-2.3	-1.5	2.7	-2.5

C. Price Indices	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*Inflation Rates (% p.a.)* *74-81*	*81-85*	*1986*	*1987*	*1988*	*1989*
Consumer Prices (IFS 64) 3/	60.2	68.2	83.6	100.0	117.6	142.6	12.7	14.5	22.6	19.7	17.6	21.3
Wholesale Prices (IFS 63) 3/	66.3	75.1	88.0	100.0	126.3	160.7	10.3	11.6	17.2	13.7	26.3	27.2
Implicit GDPfc Deflator	73.5	80.5	88.9	100.0	127.0	152.4	13.0	10.1	10.3	12.5	27.0	20.0
Implicit Expenditure Deflator	65.9	72.0	83.7	100.0	128.5	154.8	13.8	9.4	16.3	19.5	28.5	20.5

D. Other Indicators: Growth Rates (% p.a.):	*74-81*	*82-87*	*1987*	*1988*	*1989*	
Population	2.7	2.7	2.3	2.3	2.5	
Labor Force	3.3	..	..	..	..	
Gross Nat'l. Income p.c.	5.0	0.2	-3.6	0.3	-4.8	
Private Consumption p.c.	3.7	3.0	0.7	-0.3	-0.5	
Import Elasticity:						
Imports (G+NFS) / GDP(mp)	0.8	0.0	-2.8	0.6	-0.3	
Marginal Savings Rates:						
Gross National Saving	a	-1.5	-0.7	0.7	2.8	
Gross Domestic Saving	a	-2.9	-2.2	0.4	-1.5	
ICOR (period averages):	3.2	5.6	9.4	6.0	19.0	
Share of Total Labor Force in:	*1965*	*1974*	*1981*	*1985*	*1987*	*1988*
Agriculture	53.4	46.6	37.6	37.5	36.3	35.9
Industry	16.2	17.1	20.2	18.6	20.2	20.6
Distribution & Services	30.5	36.2	42.2	43.9	43.5	43.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Notes:

e = estimated data
p = preliminary data
a = figures cannot be calculated as one year is negative.
.. = data are not available.

1/ Data presentations in this brief are different from those of previous briefs due to revision of methodology and to new debt information.

2/ 1973 data sketchy and incomplete due to war.

3/ The data used is in calendar year.

4/ Year n represents fiscal year from 7/1/n-1 to 6/30/n. Prior to 1981 data in calendar year.

	Volume Index (1987=100):						Value at Current Prices (million US$):					
E. Merchandise Exports	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*
Cotton	98.0	105.1	118.2	100.0	91.5	69.2	452	414	356	343	354	269
Other Agriculture	103.0	75.0	79.2	100.0	104.5	61.9	211	140	119	123	144	102
Oil (domestic companies)	157.0	165.2	200.6	100.0	172.5	120.8	2,567	2,634	2,378	906	1,563	1,066
Textiles	93.4	104.0	93.0	100.0	132.9	99.3	265	294	288	350	504	389
Other Manufactures	105.3	101.7	91.0	100.0	120.6	118.4	463	446	436	542	709	719
Total Merch. Exports FOB	122.9	126.5	138.7	100.0	138.0	105.9	3,958	3,928	3,577	2,264	3,274	2,546
F. Merchandise Imports												
Food & Other Agriculture	108.9	105.2	103.4	100.0	81.8	83.9	2,933	2,711	2,566	2,116	1,881	2,327
Other Consumer Goods	123.9	139.8	114.8	100.0	123.5	120.4	1,667	1,875	1,681	1,658	2,220	2,236
Other Consumer Goods	145.4	156.8	130.4	100.0	111.1	100.2	2,231	2,398	2,178	1,891	2,279	2,123
Other Intermed. Goods	167.8	180.6	150.9	100.0	143.1	134.5	2,855	3,063	2,796	2,098	3,255	3,161
Petroleum & Other Energy	150.6	140.9	122.5	100.0	109.0	125.7	514	469	303	189	206	232
Total Merch. Imports CIF	137.2	145.4	125.2	100.0	114.3	109.7	10,201	10,516	9,525	7,952	9,841	10,079
									-	-	-	-

G. Terms of Trade (1987=100)	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	142.2	137.1	113.9	100.0	104.8	106.2
Merch. Imports Price Index	93.5	90.9	95.7	100.0	108.3	115.5
Merchandise Terms of Trade	152.1	150.8	119.0	100.0	96.8	91.9

	US$ millions (at current prices):					
H. Balance of Payments	*1984*	*1985 5/*	*1986 5/*	*1987 5/*	*1988 5/*	*1989*
Exports of Goods & NFS	6,848	6,866	6,494	5,667	7,225	6,862
Merchandise (FOB)	3,958	3,928	3,577	2,264	3,274	2,546
Non-Factor Services	2,889	2,938	2,917	3,403	3,951	4,316
Imports of Goods & NFS	12,287	12,606	11,825	10,097	11,690	12,271
Merchandise (CIF)	10,201	10,516	9,525	7,952	9,841	10,079
Non-Factor Services	2,086	2,091	2,300	2,145	1,849	2,192
Resource Balance	-5,440	-5,741	-5,331	-4,430	-4,465	-5,410
Net Factor Income	-622	-413	-758	-45	-122	-1,198
(LT interest)2/	968	980	1,159	583	729	2,042
Net Current Transfers	3,957	3,522	2,995	3,033	3,406	3,554
(workers remittances)	3,931	3,496	2,973	3,012	3,384	3,530
Current Account Balance	-2,105	-2,632	-3,095	-1,442	-1,181	-3,053
Long-Term Capital Inflow	2,692	3,313	2,236	2,286	1,687	668
Direct Investment	146	212	219	176	124	124
Official Capital Grants	686	1,097	1,209	974	698	640
Net LT Loans 3/	1,888	2,004	807	1,136	865	-96
Other LT Inflows (Net)	-30	0	0	0	0	0
Total Other Items (net) 4/	-445	-294	1,247	-141	-106	2,853
Net Short Term Capital	-1,385	-5	-497	-762	203	579
Capital Flows N.E.I.	940	-289	1,744	621	-309	0
Change in Arrears	0	0	0	0	0	2,274
Change in Net Reserves	-139	-387	-388	-703	-400	-468
Net Credit from the IMF	..	13	12	103	-6	-6
Other Reserve Changes	-139	-400	-400	-806	-394	-462
[- indicates increase]						
As shares of GDP:						
Resource Balance	-16	-17	-15	-12	-12	-13
LT Interest Payments	5	3	3	2	2	5
Current Account Balance	-10	-8	-9	-4	-3	-7
Memorandum Items:						
Int'l. Reserves (mil. US$)	736	792	829	1,378	1,263	1,520
Reserves incl. Gold (mil.US$)	1,415	1,370	1,451	2,192	2,057	2,199
Official X-Rate (LE/US$)	1	1	1	1	1	1
Index Real Eff. X-R Base 1987	100	105	101	100	..	..
GDP (millions of current US$)	30,642	34,689	35,057	35,998	36,811	41,076

Notes:

1/ Year n represents fiscal year n which is from 7/1/(n-1) to 6/30/n.

2/ Includes interest on arrears and estimates of interest on military as well as short-term debt.

3/ Includes arrears and Western military debt. FY86/87 data includes $392 mill. military repayment to USSR.

4/ Includes rescheduling in FY87.

5/ Debt service payments for these years are based on actual amounts.

I. Budget	Shares of GDP (%) 1984	1985	1986	1987	1988	1989	Growth Rates (% p.a.) 6/ 1984	1985	1986	1987	1988	1989
Current Receipts	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Current Expenditures	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.1	0.1	0.0	0.2	0.2
Current Budget Balance	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.6	0.1	0.2	-0.1	0.1	0.2
Capital Receipts	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.2	0.1	0.2	0.0
Capital Expenditures	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.1	0.5	-0.2
Overall Deficit	-0.2	-0.2	-0.2	-0.2	-0.2	0.2	0.4	0.1	0.2	0.0	0.5	-0.1
External Borrowing (net)	0.0	0.0	0.0	0.0	0.0	0.0						
Domestic Bank Financing (net)	0.1	0.1	0.1	0.1	0.1	0.1						
Dom. Non-Bank Financing (net)	0.1	0.1	0.1	0.1	0.1	0.1						

J. External Capital Flows,Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 3/ 1984	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ mil.) 1984	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	1,938	1,821	643	1,041	832	96	28,474	33,030	36,214	42,263	42,128	44,498
Official Creditors	1,424	1,396	684	885	810	-134	23,441	27,256	30,162	36,256	37,130	36,996
Multilateral	282	205	175	101	68	65	3,465	3,895	4,362	4,880	4,740	4,805
of which IBRD	166	148	77	14	-28	-5	720	1,048	1,368	1,703	1,515	1,510
of which IDA	97	50	34	25	17	13	744	802	846	892	900	913
Bilateral	1,143	1,191	509	784	742	-199	19,976	23,361	25,800	31,376	32,390	32,190
Private Creditors	513	425	-41	157	22	230	5,033	5,774	6,052	6,007	4,998	7,502
Suppliers	577	430	25	139	167	-120	3,885	4,475	4,704	4,431	3,940	3,820
Financial Mkts & Bonds	-166	-153	-35	-1	-26	350	551	399	364	363	313	2,985
Private Non-guaranteed	-50	183	164	95	33	-192	550	750	947	1,098	1,131	939
Total LT	1,888	2,004	807	1,136	865	-96	29,024	33,780	37,161	43,361	43,259	45,437
Use of IMF Credit 5/	0	-13	-12	103	-6	-6	53	43	37	135	129	123
Net Short-Term Capital	..	-5	-497	-762	203	579	4,580	5,637	5,128	4,334	4,537	5,116
Total incl. IMF & Net ST	1,888	1,986	298	477	1,062	477	33,657	39,460	42,326	47,830	47,925	50,676

Bank and IDA Ratios	1984	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	2.48	3.10	3.68	3.93	3.50	3.30
2. IDA as % of Total	2.56	2.37	2.28	2.06	2.08	2.00
3. IBRD+IDA as % of Total	5.04	5.48	5.96	5.98	5.58	5.30
Share of Total LT Debt Service						
1. IBRD as % of Total	4.46	5.83	9.14	21.76	19.25	7.12
2. IDA as % of Total	0.26	0.31	0.33	0.89	0.68	0.28
3. IBRD+IDA as % of Total	4.72	6.14	9.47	22.65	19.92	7.40
DOD-to-Exports Ratios 4/						
1.Long-Term Debt/Exports	256.31	309.09	371.57	456.24	373.82	391.40
2. IMF Credit/Exports	0.47	0.39	0.37	1.42	1.11	1.06
3. Short-Term Debt/Exports	40.45	51.58	51.27	45.60	39.21	44.07
4. LT+IMF+ST DOD/Exports	297.22	361.06	423.21	503.26	414.14	436.50
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	94.72	97.38	106.00	120.45	117.52	110.60
2. IMF Credit/GDP	0.17	0.12	0.11	0.38	0.35	0.30
3. Short-Term Debt/GDP	14.95	16.25	14.63	12.04	12.33	12.45
4. LT+IMF+ST DOD/GDP	109.84	113.75	120.73	132.86	130.19	123.40
Debt Service % (DS/Exp) 4/						
1. Public & Guaranteed LT	20.09	21.16	21.47	9.29	10.88	33.90
2. Private Non-guaranteed LT	1.41	1.85	2.10	2.53	2.17	2.58
3. Total LT Debt Service	21.50	23.01	23.57	11.82	13.05	36.48
4. IMF Repurchases+Serv.Chgs.		0.12	0.12	0.14	0.15	0.14
5. Interest Only on ST Debt		5.39	4.16	3.02	3.00	3.13
6. Total (LT+IMF+ST Int.)	21.50	28.52	27.85	14.98	16.19	39.80

Notes:

a = growth rates cannot be calculated as one year is negative
e = estimate
p = preliminary data
.. = data are not available.

1/ Year n represents fiscal year n which is from 7/1/(n-1) to 6/30/n.

2/ As at the beginning of the year and includes arrears and rescheduled debt. 1988 DOD data are for end CY 1988 and are not fully comparable to earlier years.

3/ Civilian and military debt.

4/ Exports of goods & services excluding foreign oil companies' exports incl. workers' remittances (R).

5/ For FY87 data, $63.9 million of $176 million is included in public MLT.

6/ Based on current prices.

El Salvador

El Salvador is a poor and densely populated country with no remaining agricultural frontier and only limited natural resources. During the two decades ending in 1979, rapid GDP growth came from coffee exports and the development of import-substituting manufacturing under the high tariff protection of the Central American Common Market (CACM). Although there was some improvement in health, education, and other social indicators during this period, mounting population pressure and increasing concentration of wealth and income led to serious social tensions that erupted in open conflict in 1979. In an attempt to redress social inequities, successive governments introduced various reforms during 1979-81: private commercial banks were nationalized, an ambitious agrarian reform was initiated, and coffee and sugar exports were placed under state control. The intensification of the civil war, accompanied by severe external shocks in the early 1980, resulted in a steep economic decline. Public sector finances deteriorated sharply: the deficit averaged 10.7 percent of GDP in 1980-82, reflecting growing expenditures for both agrarian reform and defense. External imbalances also worsened as the terms of trade deteriorated and export volume dropped by 27 percent, raising the current account deficit to 7.3 percent of GDP in 1981. The growing violence and concomitant economic disarray led to a 21 percent fall in per capita income from 1979 to 1981, massive capital flight, an increase in unemployment to over 25 percent, and large-scale exodus of professional talent.

From 1982 to 1984 the government carried out a successful stabilization program. The public sector deficit was reduced to 4.6 percent of GDP from 1983-85 while the balance of payments current account deficit dropped to 5.5 percent of GDP in 1983 and stronger economic management led to a recovery in private investment. However, the rapidly growing labor force, combined with an influx of refugees from the countryside to urban centers, aggravated the unemployment problem. During the first 18 months after President Duarte took office in June 1984, war-related disruption of economic activity declined, and GDP continued to recover modestly (2.2 percent per annum on average in 1984-85) as aggregate demand surged. Total consumption and private investment recovered rapidly in real terms as USAID resources were channeled through the central bank to the private sector. The fiscal situation further improved, as sales taxes were increased and current expenditures restrained. However, demand pressures led to an acceleration of inflation from 13 percent in 1983 to 22 percent in 1985.

A surge in imports combined with weak export performance resulted in a deterioration in the trade balance, but increased service earnings, private transfers, and especially growing U.S. grant assistance (equivalent to 4 percent of GDP in 1985) financed most of the external deficit. In addition, El Salvador's medium- and long-term external debt increased from US$0.7 billion in 1980 to US$1.7 billion in 1988. The term and interest rate structure of El Salvador's external debt are relatively favorable, since more than 90 percent of this debt is from official sources and on concessional terms. Nevertheless, the debt service ratio for medium- and long-term debt increased rapidly, from about 3 percent in 1980 to about 19 percent in 1987.

A significant adjustment effort was made in 1986, with an economic program aimed at reducing demand pressures by setting tight limits on credit expansion. The program included a 100 percent devaluation of the official exchange rate, increases in interest rates and a new tax package designed to increase revenues by 2.3 percent of GDP. The government also approved a new export promotion law and introduced a new, slightly less protective common external tariff in coordination with the other CACM member countries. These measures were only partly successful—the devaluation merely ratified the depreciation which had already taken place in the parallel markets and was accompanied by inconsistent fiscal policies, and interest rates remained negative in real terms. Also, some of the measures taken went against the liberalization effort; import controls and exchange restrictions were intensified, a list of luxury imports prohibited and a prior deposit scheme for most imports was introduced.

Due to a temporary rise in coffee prices, the current account deficit declined from 6.2 percent of GDP in 1985 to 2.9 percent in 1986, but other economic performance indicators were disappointing. GDP grew less than 1.0 percent in 1986, credit expansion to the private sector led to a further acceleration in inflation to 32 percent in 1986. The public sector deficit fell in 1986 due to a large rise in coffee tax revenue, but because of devaluation-linked increases in expenditures, it subsequently weakened again.

On October 10, 1986, a major earthquake hit San Salvador, causing serious disruption to economic activity and public administration. The total loss was estimated at US$1 billion, or about one-fourth of 1985 GDP. The reconstruction effort placed additional strain on public sector resources, even though reconstruction expenditures were largely financed by foreign assistance. In 1987, GDP grew by about 2.7 percent, continuing its gradual recovery. Inflation fell to 25 percent in 1987 and 20 percent in 1988, primarily because of tighter monetary policies; the money supply grew only 8 percent in 1987 compared to 28 percent in 1986. U.S. assistance, 90 percent of it in grant form, was almost unchanged and continued to play a crucial role in financing the current account and the public sector deficit. At the same time, aid inflows combined with an overly restrictive import regime contributed to a continuing real currency appreciation and the consequent poor performance of El Salvador's exports. Economic performance in 1988 was disappointing, with GDP growth of less than 1 percent and little reduction in inflation. Contributing to these difficulties were major weather-related crop losses, especially in coffee, and a rapid decline in public sector investment expenditures.

Recent Economic Developments

In the presidential elections of March 1989, the incumbent Christian Democratic party was defeated by the ARENA party, whose candidate, Alfredo Cristiani, assumed office on June 1, 1989. ARENA received over 50 percent of the vote and, thereby, consolidated its majority control of all branches of government, having already controlled the National Assembly, judiciary and municipal governments since 1988. President Cristiani is committed to a free-enterprise approach to economic policy. He announced a comprehensive program of policy reforms designed to stabilize and liberalize the economy, thereby providing a better basis for achieving sustained growth. Also high on the reform agenda is the alleviation of absolute poverty. Initial adjustment measures taken during July - August 1989 include (i) transferring about 80 percent of import transactions to a free-floating parallel exchange market, (ii) elimination of most price controls and raising water, electricity and transport fees to reflect costs, (iii) raising nominal interest ceilings to allow positive expected real rates, and (iv) unification of tariff rates within a range of 5 percent - 50 percent. The government also announced a Social Emergency Program to mitigate the impact of adjustment on the poor and further plans to (i) simplify the income tax, eliminate tax exemptions and introduce a VAT; (ii) unify the exchange system; (iii) introduce a single uniform import tariff; (iv) reform agricultural pricing policies; and (v) reform and privatize public sector enterprises, including the banking system.

During the last six months of the outgoing administration, in early 1989, monetary policy became laxer and there was a sharp rundown of foreign reserves and an accumulation of arrears. Then, soon after the new government took office, the country was hit by two severe shocks: a sharp decline (-45 percent) in coffee prices following the breakdown of the International Coffee Agreement in June 1989 and a major guerrilla offensive in November 1989. Despite these shocks, the new policymakers have stuck to their economic reform program: in November 1989, various tax reforms were passed through the National Assembly; by February 1990, some crucial external arrears were cleared; and in April 1990, the tariff system was further compressed to a range of 5 percent to 35 percent. Contrary to the government's announced intentions, a system of multiple exchange rates was introduced in early 1990, and monetary/fiscal policies were looser than originally projected. In April, however, steps were taken to reexert tighter macroeconomic control and to unify exchange rates at a market-determined level.

El Salvador's total external debt grew from $1.7 billion in 1986 to $1.8 billion in 1988, at which it remained in 1989. Compared to other Latin American countries, El Salvador's external debt is small, amounting to about 175 percent of annual exports and 28 percent of GDP. The bulk of external development financing is provided by official sources, primarily USAID and IDB, and on concessionary terms. IDB has been the single largest lender to El Salvador, with outstanding loans currently amounting to about $800 million. USAID financial support, most of which is extended in the form of grants and concessional loans, increased rapidly from $120 million a year in 1981 to $495 million a year in 1987, but has since then decreased. The Bank Group's share of the country's medium and long term external debt is 9.81 percent and of its debt service is 9.26 percent.

El Salvador experienced increased debt servicing difficulties in the first half of 1989, and arrears mounted. By end-1989, however, total arrears were reduced and the authorities' have expressed the intention to clear all arrears by end-1990, partly with the country's own resources but also through a Paris Club rescheduling. These steps, together with the initiation of a sound and comprehensive economic adjustment program, have significantly improved El Salvador's economic outlook. Although the country's future still is clouded by the threat of renewed guerrilla warfare, recent political development in Central America, including the reinitiation of peace talks under UN auspices, have greatly improved the prospects for an end to the civil war.

EL SALVADOR

Mid-1988 Population (mils.)	5
1988 Per Capita GNP in US$:	960

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	4.4	3.2	0.2	0.9	0.9
Net Indirect Taxes	8.5	8.0	7.2	..	..	..	..	..	..	..	..
Agriculture	29.1	27.7	27.8	13.8	21.5	21.5	3.6	3.3	-1.3	0.4	0.9
Industry	22.3	23.1	20.7	22.7	23.1	23.1	5.2	3.9	1.2	14.4	0.9
(of which Manufacturing)	17.7	18.3	15.0	17.5	..	..	5.1	2.7	-0.3	..	..
Services	48.6	49.2	51.5	63.5	55.4	55.4	4.4	2.9	0.2	-3.8	0.9
Resource Balance	-2.4	-2.8	0.9	-7.1	-6.5	-10.5	..	..	..	..	..
Exports of GNFS	26.5	30.1	34.2	19.0	15.8	13.2	4.0	4.6	-3.5	-9.3	-12.6
Imports of GNFS	29.0	32.9	33.2	26.1	22.3	23.7	3.3	5.1	-2.0	-0.5	7.4
Total Expenditures	102.4	102.8	99.1	107.1	106.5	110.5	4.2	3.5	0.3	2.4	4.6
Total Consumption	87.6	84.5	85.8	94.7	93.7	94.2	4.4	3.6	0.3	0.2	0.4
Private Consumption	79.0	74.1	71.8	81.0	80.9	81.8	4.1	3.3	-0.1	-0.1	0.9
General Government	8.7	10.5	14.0	13.7	12.7	12.4	7.6	6.3	3.3	2.5	-2.2
Gross Domestic Investment	14.8	18.3	13.3	12.4	12.8	16.3	3.4	2.7	0.2	18.5	31.5
Fixed Investment	14.2	15.6	13.6	13.6	12.5	12.9	3.0	5.3	1.1	2.4	4.3
Changes in Stocks	0.6	2.6	-0.3	-1.3	0.3	3.4	..	..	..	..	..
Gross Domestic Saving	12.4	15.5	14.2	5.3	6.3	5.8	6.7	6.6	-6.6	35.5	-2.6
Net Factor Income	-1.0	-1.1	-1.4	-1.6	-1.9	-1.8	..	..	..	..	..
Net Current Transfers	0.0	0.9	0.5	4.4	4.1	3.8	..	..	..	..	..
Gross National Saving	11.4	15.2	13.2	8.0	8.6	7.8	7.2	6.3	-1.7	29.0	-4.8
In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	14,238	20,784	24,331	23,141	23,345	23,555	4.4	3.2	0.2	0.9	0.9
Capacity to Import	4,251	6,211	7,827	4,395	4,265	3,601	4.8	7.1	-4.9	-2.9	-15.6
Terms of Trade Adjustment	1,103	1,896	2,045	0	281	117	..	..	..	..	..
Gross Domestic Income	15,341	22,680	26,376	23,141	23,626	23,672	4.6	4.0	-0.2	2.1	0.2
Gross National Product	14,182	20,670	24,160	22,778	23,137	23,353	4.4	3.2	0.2	1.6	0.9
Gross National Income	15,285	22,566	26,205	22,778	23,418	23,470	4.6	4.0	-0.3	2.8	0.2

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	30.6	60.7	80.1	100.0	119.8	140.9	1.6	13.5	18.8	19.8	17.6
Wholesale Prices (IFS 63)	..	..	..	..	..	..	2.4	14.0	8.4	..	..
Implicit GDP Deflator	36.6	64.3	87.7	100.0	117.2	137.0	1.5	12.6	16.6	17.2	16.8
Implicit Expenditures Defl.	33.8	64.2	82.8	100.0	114.8	134.3	1.4	11.6	17.1	14.8	17.0

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	3.3	2.2	1.4	
Labor Force	..	..	..	
Gross Natl. Income p.c.	1.3	1.8	-1.6	
Private Consumption p.c.	0.7	1.1	-1.4	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	0.8	1.6	-9.1	
Marginal Savings Rates:				
Gross National Saving	23.8	2.0	59.2	
Gross Domestic Saving	22.2	6.9	94.9	
ICOR (period averages):	..	8.9	-27.1	
Share of Total	*1965*	*1973*	*1980*	*1988*
Labor Force in:				
Agriculture	58.7	51.8	43.2	..
Industry	15.9	16.0	19.4	..
Services	25.5	32.1	37.4	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	*Volume Index* 1980	1985	1986	1987	1988	1989	*Value at Current Prices (millions US$)* 1980	1985	1986	1987	1988	1989
X.BEV.COFFEE	118.5	102.3	87.0	100.0	80.7	55.4	615	464	539	347	358	227
X.MAN.TEXT	..	..	..	..	..	..	95	..	..	..	..	..
X.OAGRI.COTTON	1219.5	553.7	142.7	100.0	13.4	30.5	83	29	5	3	0	1
X.FOOD.FISH	23.4	63.6	108.2	100.0	87.9	55.9	13	10	17	20	16	10
Manufactures	..	..	..	..	..	..	115	..	79	80	140	161
Residual	..	..	..	..	..	..	154	192	116	123	95	98
Total Exports FOB	126.6	104.3	91.5	100.0	91.5	75.3	1,075	695	756	573	609	496
F. Merchandise Imports												
Food	..	..	..	..	..	..	150	120	182	208	250	297
Fuel and energy	..	..	..	..	..	..	159	132	82	100	90	97
Other Consumer Goods	..	..	..	..	..	..	..	48	25	29	37	41
Other Intermed. Goods	..	..	..	..	..	..	542	504	421	409	461	544
Capital goods	..	..	..	..	..	..	112	158	225	229	280	311
Total Imports CIF	82.5	96.6	95.0	100.0	96.3	106.6	962	961	935	975	1,118	1,289

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	148.1	116.3	144.1	100.0	115.6	114.6
Merch. Imports Price Index	119.6	102.0	101.0	100.0	102.0	106.3
Merch. Terms of Trade	123.9	114.0	142.9	100.0	113.3	107.8

H. Balance of Payments	*US$ millions (at current prices)* 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,215	906	1,020	837	866	761
Merchandise (FOB)	1,075	679	776	591	609	496
Non-Factor Services	140	227	245	246	257	264
Imports of Goods & NFS	1,170	1,185	1,180	1,200	1,220	1,360
Merchandise (FOB)	897	895	900	994	1,010	1,160
Non-Factor Services	273	289	278	204	213	202
Resource Balance	45	-279	-157	-361	-354	-603
Net Factor Income	-63	-94	-108	-72	-102	-102
(interest per DRS)	36	76	74	76	66	79
Net Current Transfers	17	129	149	202	226	242
(workers' remittances)	11	126	138	..	226	242
Curr. A/C Bal. before Off. Transf.	-1	-243	-116	-231	-230	-463
Net Official Transfers	32	214	233	372	283	277
Curr. A/C Bal. after Off. Transf.	31	-29	117	141	53	-186
Long-Term Capital Inflow	148	99	154	-41	96	67
Direct Investment	6	12	24	-50	0	0
Net LT Loans (DRS data)	74	56	-2	9	82	6
Other LT Inflow (Net)	68	31	132	0	15	61
Total Other Items (net)	-260	-50	-213	-12	-208	179
Net Short Term Capital	57	-72	-72	1	1	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-317	23	-141	-13	-208	179
Changes in Net Reserves	81	-21	-58	-88	59	-60
Net Credit from the IMF	7	-16	-46	-37	-6	-4
Other Reserves Changes	74	-5	-12	-50	64	-56
As Share of GDP:						
Resource Balance	1.3	-7.1	-4.0	-7.8	-6.5	-9.3
Interest Payments	1.0	1.9	1.9	1.6	1.2	1.2
Current Account Balance	0.0	-6.2	-2.9	-5.0	-4.2	-7.2
Memorandum Items:						
Reserves excl. Gold (mil. US$)	78	180	170	186	162	266
Reserves incl. Gold (mil. US$)	382	333	353	413	354	454
Official X-Rate (LCUs/US$)	2.50	2.50	4.85	5.00	5.00	5.00
Index Real Eff. X-R Base 1980	100.00	150.25	123.37	138.58	158.26	..
GDP (millions of current US$)	3,567	3,905	3,953	4,628	5,473	6,452

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	14.5	24.5	15.9	12.1	12.4	..	8.6	34.6	-8.5	..	..
Current Expenditures	14.7	23.7	14.7	13.7	12.5	..	9.4	29.2	12.0	..	..
Current Budget Balance	-0.2	0.9	1.2	-1.6	-0.1	..	51.6	184.8	-267.0	..	..
Capital Receipts	0.1	1.5	0.1	0.1		..	..	-85.6	-1.0	..	..
Capital Expenditures	7.8	7.4	6.1	5.6	3.4	..	8.5	70.2	12.2	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-7.9	-5.1	-4.8	-7.2	-3.5	..	10.3	95.4	80.5	..	..
Official Capital Grants	..	2.2	2.5	3.6	5.2	..	326.8	131.9	74.6	..	..
External Borrowing (net)	2.3	2.4	1.3	1.1	1.2	..	25.5	11.4	8.9	..	..
Domestic Non-Bank Financing	4.8	2.1	-1.4	1.3	-1.0	..	-43.5	-236.4	-205.7	..	..
Domestic Bank Financing	0.8	-1.6	2.4	1.1	1.4	..	22.8	-407.4	-43.3	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	92	66	19	22	96	22	499	1,461	1,482	1,574	1,630	1,652
Official Creditors	97	107	59	52	107	38	487	1,310	1,371	1,494	1,561	1,599
Multilateral	31	55	16	3	73	19	258	610	670	736	777	797
of which IBRD	8	6	-4	-5	3	-9	87	119	140	167	155	142
of which IDA	3	0	-1	-1	-1	0	27	26	25	25	24	24
Bilateral	66	52	44	49	35	19	229	701	701	757	784	802
Private Creditors	-5	-41	-40	-30	-11	-16	12	150	111	81	69	53
Suppliers	0	0	0	0	0	0	0	0	0	0	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	-18	-10	-21	-14	-15	-16	161	104	83	70	55	39
Total LT	74	56	-2	9	82	6	659	1,565	1,565	1,644	1,685	1,691
IMF Credit	40	-27	-58	-46	-11	-5	32	111	62	22	11	5
Net Short-Term Capital	57	-72	-72	1	1	0	220	82	90	89	110	130
Total incl. IMF & Net ST	171	-44	-132	-37	72	1	911	1,757	1,717	1,755	1,806	1,826

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	13.21	7.63	8.95	10.13	9.22	8.39
2. IDA as % of Total	4.04	1.65	1.61	1.51	1.44	1.42
3. IBRD+IDA as % of Total	17.25	9.28	10.56	11.64	10.66	9.81
Share of LT Debt Service						
1. IBRD as % of Total	14.31	7.34	8.50	10.09	12.80	9.07
2. IDA as % of Total	0.42	0.19	0.39	0.37	0.40	0.19
3. IBRD+IDA as % of Total	14.73	7.53	8.89	10.46	13.20	9.26
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	51.43	145.19	131.45	178.87	148.88	161.96
2. IMF Credit/Exports	2.49	10.25	5.22	2.43	0.95	0.51
3. Short-Term Debt/Exports	17.17	7.61	7.56	9.68	9.72	12.45
4. LT+IMF+ST DOD/Exports	71.09	163.06	144.23	190.98	159.54	174.92
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	18.48	40.07	39.59	35.52	30.79	26.21
2. IMF Credit/GDP	0.89	2.83	1.57	0.48	0.20	0.08
3. Short-Term Debt/GDP	6.17	2.10	2.28	1.92	2.01	2.01
4. LT+IMF+ST DOD/GDP	25.55	45.00	43.45	37.92	33.00	28.31
Debt Service /Exports						
1. Public & Guaranteed LT	3.25	18.18	15.03	19.13	13.60	18.64
2. Private Non-guaranteed LT	2.25	1.67	2.36	1.68	1.78	1.94
3. Total Long-Term Debt Service	5.51	19.85	17.39	20.81	15.39	20.58
4. IMF Repurchases+Serv. Chgs.	0.02	3.16	5.35	5.22	0.95	0.49
5. Interest only on ST Debt	1.95	0.59	0.50	0.49	0.53	0.77
6. Total (LT+IMF+ST Int.)	7.48	25.46	23.24	26.63	16.87	21.84

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Equatorial Guinea

Equatorial Guinea's land area is 28,000 square kilometer and its population about 350,000. The national territory comprises Rio Muni on mainland Africa, and the island of Bioko—with the national capital, Malabo—and four other small islands in the Gulf of Guinea. Communications and administration are particularly difficult. The islands and Rio Muni have different economic bases. Bioko has rainfall all year and the dominant economic activity is cocoa production. In Rio Muni, food crops are the dominant economic activity, and cash crops play a secondary role. Bioko is the more developed and urbanized, but approximately 80 percent of the population live in Rio Muni.

Economic Potential and Constraints

Agriculture, including fishing and forestry, accounts for about 60 percent of GDP and virtually all exports. Subsistence agriculture predominates but cocoa, coffee, and timber provide monetary income, foreign exchange, and government revenues. Little manufacturing exists; commerce accounts for about one tenth of GDP, and construction, public works, and services, for roughly one third. A small offshore hydrocarbon deposit in Bioko, the Alba field, is expected to start production in 1991 and oil exploration is taking place offshore in the continental area.

Equatorial Guinea once had one of the highest per capita incomes in Sub-Saharan Africa, but the Macias Nguema regime (1968-79) entailed such serious mismanagement and destructive misrule that the entire economy went into a tailspin. By 1979, production of cocoa, coffee, and forestry had fallen by approximately 82, 92, and 86 percent, respectively, from their levels before independence. Health services, education, public utilities, roads, ports were neglected and deteriorated badly. Gross human rights violations, including arbitrary executions, particularly of educated people, caused about one third of the population to flee the country. As a result, there are limited numbers of qualified and experienced personnel. This situation was further aggravated by the closing down of the entire education system, which left a whole generation of children unschooled. Foreign investment stopped, and the state-operated trading system broke down. The public administration virtually ceased to operate, barter trade increased, and the population at large barely managed to survive. Equatorial Guinea's per capita income dropped from US$260 equivalent in 1968 to an estimated US$175 in 1981, both in current terms.

Background

In late 1979, Macias Nguema was deposed by the military, which established a Supreme Military Council headed by Lieutenant Colonel Nguema Mbasogo. The new government took steps to restore progressively a measure of democratic process and reestablish the legal and administrative framework needed to support economic rehabilitation. In August 1982, a referendum approved a new constitution establishing a National Assembly and a new judicial system. The country's political isolation was overcome as Spain, France, other countries, and international organizations resumed their financial and technical cooperation. The first major cabinet reshuffle since 1986 took place in August 1989, following the President's uncontested reelection earlier in June.

After a period of unsuccessful macroeconomic policies, the government launched a more appropriate economic program featuring, as a key first step, Equatorial Guinea's entry, effective January 1, 1985, into the Bank of Central African States (BEAC). The domestic currency, the epkwele, was replaced by the CFA franc at a rate which implied a de facto devaluation of 82 percent. The program also emphasized improvements in fiscal and external debt management, significant increases in producer prices to stimulate production and exports, efforts to restructure the financial system, and abolition of administrative controls on consumer prices.

Unfortunately, however, there were considerable slippages in program targets. Fiscal and balance of payments equilibria improved in 1985, but developments were less favorable than envisaged and new domestic and external payments arrears emerged. Results in the real sector were also disappointing. Despite the higher producer prices, officially recorded cocoa production in the 1985/86 crop year fell to the lowest level recorded since independence (5,340 tons) owing to excessive rains, inefficiencies in the taxation and marketing systems, and the use of a new and less effective chemical fungicide. Timber output improved but continued to remain far below potential, partly reflecting delays in establishing a clear regulatory framework. During 1986 financial imbalances deteriorated and led to further accumulation of domestic and external payments arrears. Moreover, acute liquidity problems in the domestic banking system emerged which resulted in severe financial strains.

In an effort to control the deteriorating economic situation, in late 1987 and early 1988, the government took further measures to improve economic management. For example, to address the crisis in the banking sector, it began the liquidation process of the two banks in severe financial difficulties. Cocoa output improved to 8,200 tons during the 1987/88 season partially as a result of more appropriate taxation, marketing, and grading policies. Investment programming also improved in 1987 and in 1988; three-year rolling public investment programs for the periods 1987-89 and 1988-90, were prepared and various non-viable projects were eliminated from the investment program. With regard to the budget, expenditure discipline was strict during late 1987 and the first semester of 1988.

Recent Developments

However, these improvements in economic performance proved to be only temporary. With regard to export performance, cocoa production during the 1988/89 campaign declined to some 6,600 tons because of excessive and untimely rainfall and declining world prices; wood export volumes declined sharply in 1988 because of lack of investment, excessive taxes and production costs and difficulties in banking and transport services. Moreover, export volumes in 1989 remained flat. On the budget front, in 1988, lukewarm revenue performance and large expenditure overruns resulted in an increase in the overall budgetary deficit (revenues and expenditures on an accrual basis, excluding grants and foreign financed development expenditures) to 5.4 percent of estimated GDP compared to a deficit of 3.7 percent of GDP in 1987. In 1989, although most expenditures were brought under control, revenues declined sharply and the budgetary deficit remained at around 5.5 percent of estimated GDP. With regard to other policy areas, little progress was achieved in liquidating the two bankrupt banks and policy reversals have taken place in the area of investment planning as the government sought to implement projects whose economic and social rate of return are estimated to be marginal.

Equatorial Guinea's public finances and balance of payments are undermined by an extremely high debt service burden; at end 1988, debt outstanding (including to the IMF) was estimated at US$180 million, 122 percent of GDP or almost 6 times exports of goods and non-factor services. External debt service obligations (including the IMF) represented 54 percent and 49 percent of exports of goods and non-factor services in 1987 and 1988, respectively. These obligations proved too much to absorb and by end 1988 the stock of arrears on external debt service obligation was substantial. However, Equatorial Guinea benefited in March 1989 from debt relief from the Paris Club creditors; much (US$19.8 million) of these arrears were consolidated and rescheduled on concessional terms.

Equatorial Guinea's economy has responded positively to the government's recovery measures and the renewed inflow of foreign aid. There has been a resumption in per capita income growth during the period 1986-89. Nevertheless, economic performance during the last three years has been below potential: export growth has remained limited, domestic savings marginal, budgetary deficits have increased, and the economic recovery remains fragile and too dependent on the two main export commodities and foreign aid.

Reform and Development Prospects

Against this background, since late 1987 the government has taken some measures to improve macroeconomic policies so as to increase growth while restoring basic macroeconomic equilibria. However, the deterioration in public finances in late 1988 and 1989 and the delays in liquidating the bankrupt banks have derailed the medium-term program. Significant improvements in budgetary management would need to be realized if a sound financial framework for the program is to be assured.

The government believes that the impetus for economic growth should come from the private sector and intends to create the necessary conditions to attract on a continuous basis foreign skilled manpower, capital and technology, as well as to provide sufficient incentives for domestic investors. Consequently, the focus will be on generating a favorable environment for private sector activity, withdrawing state activity from production and trade, together with a public investment program that emphasizes the rehabilitation of priority infrastructure.

Equatorial Guinea's good and potentially diversified resource base should allow the economy to grow at the desired rate once the effects of many years of serious mismanagement are overcome and the government's rehabilitation program gains momentum. Production of the country's export commodities can be expected to increase steadily, providing a base for developing food production and marketing. Nevertheless, skilled manpower is likely to remain a key constraint for years to come.

This process of structural adjustment with growth would lead to improvements in the internal and external balances. The current account deficit, before official transfers, is expected to be reduced from 43 percent of GDP in 1989. The fiscal deficit on a commitment basis before grants and foreign financed development expenditures, which amounted to CFAF 2.5 billion in 1989 would improve steadily over the period 1990-94 and move into balance in 1995, partly because of resources that are expected to be forthcoming from the exploitation of the Alba gas field. However, as the scheduled debt service ratio is expected to be 36 percent in 1990, the government will probably need to seek further debt relief. The financial situation will remain very difficult over the next few years because of the heavy debt service burden and public savings net of debt service are likely to be negative. The government's contribution to public investments will therefore remain modest, which will mean a heavy dependence on the international donor community for new development projects and programs.

The emphasis of the adjustment program is on agricultural-led growth which should improve rural incomes, and thereby help redress urban-rural imbalances. Urban incomes are not expected to suffer unduly during the program period. In addition, policies to improve private sector activities in both urban and rural areas would eventually mitigate the pressure placed on employment by the relatively rapid population growth (2.6 percent). Finally, the government intends to protect the most vulnerable groups and to intensify its efforts to alleviate poverty by ensuring that basic social services, especially health and education, are provided to the poor on as wide a coverage as permitted by resource constraints. To protect the funding of human resource development, the share of the government's budget allocated to essential social services should be expected to increase over the medium term.

EQUATORIAL GUINEA

Mid-1988 Population (thous.)	336
1988 Per Capita GNP in US$:	400

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	..	2.0	4.1
Net Indirect Taxes	6.5	7.5	..	4.5	4.4	4.7	..	..	..	..	..
Agriculture	..	..	..	58.3	59.1	58.7	..	..	..	0.7	4.6
Industry	..	..	..	10.7	10.1	10.3	..	..	..	3.1	5.1
(of which Manufacturing)	..	..	..	1.9	1.8	1.8	..	..	..	..	..
Services	..	..	..	26.5	26.3	26.3	..	..	..	4.0	2.2
Resource Balance	9.1	-15.2	..	-31.7	-36.0	-37.2	..	..	..	..	..
Exports of GNFS	42.1	38.3	..	32.0	34.5	29.4	..	..	..	18.0	-14.9
Imports of GNFS	33.1	53.6	..	63.7	70.4	66.6	..	..	..	9.3	3.5
Total Expenditures	90.9	115.2	..	131.7	136.0	137.2	..	..	..	4.9	3.9
Total Consumption	72.3	97.2	..	108.2	112.9	115.2	..	..	..	2.8	10.5
Private Consumption	58.8	71.8	..	83.1	79.7	83.8	..	..	..	-5.8	13.8
General Government	13.5	25.4	..	25.1	33.2	31.4	..	..	..	29.9	3.1
Gross Domestic Investment	18.6	18.0	..	23.5	23.0	21.9	..	..	..	-3.8	4.1
Fixed Investment	..	..	..	23.5	23.0	21.9	..	..	..	-3.8	4.1
Changes in Stocks	..	..	..	0.0	0.0	0.0	..	..	..	..	..
Gross Domestic Saving	27.7	2.8	..	-8.2	-12.9	-15.2	..	..	..	..	..
Net Factor Income	0.0	0.3	..	-4.7	-5.4	-5.2	..	..	..	..	..
Net Current Transfers	0.0	0.0	..	-1.0	-1.6	-0.2	..	..	..	..	..
Gross National Saving	27.7	2.9	..	-13.9	-19.9	-20.6	..	..	..	..	..
In thousands of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	..	..	41,914	42,751	44,503	..	..	..	2.0	4.1
Capacity to Import	..	..	..	13,407	14,276	13,350	..	..	..	6.5	-6.5
Terms of Trade Adjustment	..	..	..	0	-1,541	-106	..	..	..	..	..
Gross Domestic Income	..	..	..	41,914	41,211	44,397	..	..	..	-1.7	7.7
Gross National Product	..	..	..	39,960	40,552	42,146	..	..	..	1.5	3.9
Gross National Income	..	..	..	39,960	39,011	42,039	..	..	..	-2.4	7.8

			(1987 = 100)				*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	..	99.3	99.5	100.0	102.1	104.6	..	..	..	2.1	2.5
Implicit Expenditures Defl.	..	99.8	100.2	100.0	105.8	104.3	..	..	..	5.8	-1.4

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	1.7	1.7	1.9
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	..	..	..
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	78.7	72.2	65.8	..
Industry	7.1	9.2	11.3	..
Services	14.3	18.6	22.9	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	Volume Index (1985=100) 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.BEV.COCOA	..	100.0	85.0	91.0	98.0	90.0	..	15	16	15	17	11
X.TIM	..	100.0	155.0	173.0	163.0	185.0	..	6	15	21	24	23
X.BEV.COFFEE	..	100.0	75.0	20.0	55.0	48.0	..	1	2	0	1	1
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	100.0	80.0	82.0	64.0	66.0	..	2	2	3	2	2
Total Exports FOB	..	100.0	104.0	108.0	111.0	112.0	..	24	34	39	45	37
F. Merchandise Imports												
Food	..	100.0	79.0	95.0	92.0	97.0	..	4	5	6	8	7
Fuel and energy	..	100.0	282.0	247.0	261.0	271.0	..	4	8	8	9	9
Other Consumer Goods	..	100.0	79.0	95.0	92.0	99.0	..	6	8	11	12	11
Other Intermed. Goods	..	100.0	79.0	95.0	92.0	96.0	..	5	7	9	11	10
Capital goods	..	100.0	79.0	95.0	92.0	96.0	..	12	15	20	25	22
Total Imports CIF	..	100.0	97.0	107.0	102.0	107.0	..	32	42	54	64	58

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	72.1	100.0	108.0	122.3	99.3
Merch. Imports Price Index	..	67.7	100.0	112.0	135.3	115.8
Merch. Terms of Trade	..	106.4	100.0	96.4	90.4	85.7

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	15	24	35	45	51	43
Merchandise (FOB)	15	24	34	39	45	37
Non-Factor Services	0	0	1	6	6	6
Imports of Goods & NFS	58	32	58	89	103	97
Merchandise (FOB)	58	32	42	54	64	58
Non-Factor Services	0	0	16	34	39	39
Resource Balance	-43	-7	-23	-44	-53	-54
Net Factor Income	0	-4	-6	-7	-8	-8
(interest per DRS)	0	1	1	3	4	4
Net Current Transfers (priv.)	..	0	1	-1	-2	0
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	..	-12	-28	-52	-63	-62
Net Official Transfers	..	9	24	29	50	39
Curr. A/C Bal. after Off. Transf.	..	-3	-4	-23	-13	-23
Long-Term Capital Inflow	24	3	6	21	24	18
Direct Investment	..	0	0	0	0	0
Net LT Loans (DRS data)	18	8	19	20	17	15
Other LT Inflow (Net)	6	-5	-13	2	7	3
Total Other Items (net)	6	-4	7	0	0	18
Net Short Term Capital	0	-5	3	-9	-7	1
Capital Flows N.E.I.	0	0	4	10	10	12
Errors and Omissions	6	2	1	-1	-4	5
Changes in Net Reserves	13	4	-9	2	-11	-13
Net Credit from the IMF	10	-1	-1	1	4	-3
Other Reserves Changes	3	6	-8	1	-15	-10
As Share of GDP:						
Resource Balance	..	-8.2	-20.0	-31.7	-36.1	-37.2
Interest Payments	..	1.2	0.9	2.2	2.7	2.8
Current Account Balance	..	-14.1	-24.3	-37.4	-42.9	-42.8
Memorandum Items:						
Reserves excl. Gold (mil. US$)	..	3	3	1	5	0
Reserves incl. Gold (mil. US$)	0	3	3	1	5	0
Official X-Rate (LCUs/US$)	110.63	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	0.00	0.00	0.00	0.00	0.00	0.00
GDP (millions of current US$)	..	85	115	139	147	145

I. Budget (specify level)	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Current Receipts	..	20.3	15.3	19.9	15.6	12.6	..	-21.0	37.0	-18.4	-14.0
Current Expenditures	..	17.0	16.6	14.3	18.2	14.9	..	2.3	-9.4	32.4	-12.5
Current Budget Balance	..	3.3	-1.3	5.6	-2.6	-2.3	..	..	..	..	..
Capital Receipts	..	2.3	2.2	3.5	1.4	1.3	..	-4.3	59.1	-60.0	-7.1
Capital Expenditures	..	3.4	2.4	1.6	1.9	1.8	..	-29.4	-33.3	18.7	-5.3
Adjustments	..	-1.6	-1.8	2.6	-0.3	-0.9	..	..	..	..	..
Overall Deficit	..	-2.4	-5.9	0.5	-5.9	-5.4	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	..	-0.4	3.8	2.8	7.1	6.1	..	..	..	..	..
Domestic Non-Bank Financing	..	1.1	-0.2	0.4	-1.0	0.3	..	..	..	..	..
Domestic Bank Financing	..	2.7	5.0	-3.3	-2.6	2.5	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	18	8	19	20	17	15	52	114	137	171	176	189
Official Creditors	13	8	18	19	17	15	45	106	129	162	168	180
Multilateral	2	4	6	13	12	12	3	14	22	39	47	58
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	0	3	4	11	7	8	0	3	7	20	25	33
Bilateral	11	3	12	6	5	4	42	92	107	124	121	122
Private Creditors	5	1	1	1	0	0	7	8	8	9	9	9
Suppliers	5	0	0	1	0	0	7	3	3	4	4	4
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	18	8	19	20	17	15	52	114	137	171	176	189
IMF Credit	18	-2	-3	-1	3	-5	16	13	11	12	14	9
Net Short-Term Capital	0	-5	3	-9	-7	1	7	7	8	11	10	10
Total incl. IMF & Net ST	36	1	18	10	13	11	75	133	156	193	200	208

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	2.90	5.41	11.69	14.43	17.34
3. IBRD+IDA as % of Total	0.00	2.90	5.41	11.69	14.43	17.34
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	3.85	2.53	2.63	2.60
3. IBRD+IDA as % of Total	0.00	0.00	3.85	2.53	2.63	2.60
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	471.37	394.52	383.63	348.51	443.09
2. IMF Credit/Exports	..	53.11	31.70	25.78	28.32	20.61
3. Short-Term Debt/Exports	..	26.97	23.34	23.54	19.21	23.89
4. LT+IMF+ST DOD/Exports	..	551.45	449.57	432.96	396.04	487.59
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	..	134.22	119.30	122.69	120.12	129.62
2. IMF Credit/GDP	..	15.12	9.59	8.25	9.76	6.03
3. Short-Term Debt/GDP	..	7.68	7.06	7.53	6.62	6.99
4. LT+IMF+ST DOD/GDP	..	157.03	135.94	138.46	136.50	142.64
Debt Service /Exports						
1. Public & Guaranteed LT	..	6.64	7.49	17.71	15.05	18.03
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	..	6.64	7.49	17.71	15.05	18.03
4. IMF Repurchases+Serv. Chgs.	..	31.12	10.66	3.81	3.96	12.88
5. Interest only on ST Debt	..	4.15	1.15	0.67	0.59	0.70
6. Total (LT+IMF+ST Int.)	..	91.70	25.36	22.20	22.77	31.62

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Ethiopia

The boundaries of Ethiopia embrace a wide diversity of cultures with a long history. Centuries of tradition have been overtaken recently by fundamental social and political change. With a population of about 47 million in FY88, Ethiopia is the third most populous country in Africa (after Nigeria and Egypt). The population growth rate is increasing: it is currently 2.9 percent and is projected to exceed 3 percent by the mid 1990s. It is also one of the poorest and, in terms of social indicators, one of the least developed. About nine-tenths of the total population is rural. In peasant agriculture, holding sizes have diminished markedly since the Revolution of 1974 with the growth in the number of rural households. The country's land area extends over 1.2 million square kilometers and may be broadly divided into two main geographical zones—the highland plateau of central Ethiopia and the surrounding lowlands. Its capital city, Addis Ababa, located in the central highlands has a population estimated at 1.6 million (1987).

Agriculture accounts for about 40 percent of GDP, 90 percent of exports, and 85 percent of total employment. Field crops account for about 40 percent of the gross value of agricultural production, livestock for another 40 percent and cash crops for most of the rest. The country's main potential lies in agriculture, for which the natural conditions of several areas are favorable. About 94 percent of the land under cultivation is operated by individual farmers who have user rights to landholdings averaging two hectares or less. The main food crops are teff (a locally consumed cereal), maize, barley, sorghum, wheat, pulses, and oilseeds. Coffee, the principal export crop, generates over 60 percent of the country's export earnings. Other export crops include oilseeds, pulses, cotton, sugarcane, fruits and vegetables.

Ethiopia's known natural resources include gold, platinum, tantalum, soda ash, and potash. Some offshore petroleum exploration is taking place, but no petroleum reserves have yet been proven. Substantial gas reserves are believed to exist in the eastern region. None of these minerals has been exploited on a large scale, but large-scale gold mining has just commenced and there are good prospects for developing other exportable minerals within the medium term. The manufacturing industry, which accounts for about 10 percent of GDP, is heavily dependent on agriculture; agro-based industry constitutes around 70 percent of large and medium-scale industry.

The Ethiopian economy remains hampered by its weak infrastructure (notably roads), low productivity in agriculture, heavy dependence on one export commodity (coffee), a small industrial base, and shortages of skilled manpower. Apart from these unfavorable initial conditions, domestic resources for investment are limited by the government's large outlays on internal security, while import capacity is constrained by stagnating exports and by low levels of external resource transfers.

Ethiopia's rapid population growth also poses severe problems for the future. Population growth, currently estimated at around 2.9 percent per annum, implies a doubling of Ethiopia's population in less than 25 years. This will absorb most of the gains in economic growth, seriously impairing prospects for improving standards of nutrition, education and health care, and for coming to grips with Ethiopia's ecological degradation. The net impact could be stagnation or a further decline in the living standards of the Ethiopian people. Unless steps are taken to reduce fertility through an expansion of family planning services, there will be little significant improvement in per capita income or living standards. Ethiopia needs to expand and strengthen its basic maternal and child health services, into which family planning should be integrated.

There are also institutional and policy constraints on development which have aggravated supply-side rigidities. Public sector control and ownership cover almost all large and medium-scale mining, manufacturing, commercial farming, banking and insurance, shipping, airways, utilities, and a large proportion of construction. Retail trade and road transport are still largely in private hands but the public sector occupies a strategic position in agricultural marketing and wholesale domestic and international trade.

Private investment has been discouraged by ceilings on permissible fixed assets, licensing, high rates of personal taxation, employment protection legislation and discrimination in credit allocation. Public enterprises have been subject to planning directives, price and distribution controls, and labor allocation and wage fund provisions which have increased their costs and blunted their competitiveness. Individual peasant farmers have suffered the disincentives of insecurity of tenure, low official procurement prices, discrimination in the allocation of inputs in favor of state farms and cooperatives and heavy taxation.

Public investment policy has emphasized large green-field projects where returns on capital have been low. The national currency is substantially overvalued, such that most agricultural and manufactured exports require subsidies. The domestic market is characterized by poor geographical integration due to movement controls and shortages of vehicles, and by a marked dualism in price levels between officially distributed goods and those distributed in the free market.

GNP per capita is estimated at around US$120 (1988), and an estimated 60 percent of the population lives below the absolute poverty level. Health services are limited and require major improvements to combat high rates of morbidity and infant and maternal mortality. Life expectancy is still only about 46 years. Primary school enrollment of the school-age population has been raised since the Revolution from 19 percent to over 40 percent, but remains below the average for low income African countries. Successive literacy campaigns have raised the recorded literacy rate from 7 percent in 1973 to 75 percent in the adult population. Housing and sanitation facilities are poor and need urgent attention.

Ethiopia has a rich endowment of fertile land and substantial agricultural potential, but most agriculture takes place in rain-fed conditions and is subject to recurrent drought. Food security protection against harvest failure is therefore necessary. When this was inadequate in 1984/85 a famine occurred and a major international relief effort was mounted. A second, even larger, effort was mounted in 1988 which brought in nearly one million tons of food aid, following poor rainfall, which averted famine. The World Food Programme appealed in October 1989 for relief supplies to feed some 4 million people, mainly in the rebel-held North, following renewed, localized drought. Relief supplies have been mobilized and are being distributed despite severe logistical disruption caused by the recent upsurge of hostilities. Famine conditions have, so far, been successfully averted. The wide variation in topography and extremely rugged terrain have been serious obstacles to internal transportation, and economic development in general. Nearly three-quarters of Ethiopia's farms are more than a half day's walk from all-weather roads.

Environment. Ethiopia's large agricultural population is concentrated in high-rainfall, highland areas which are subject to serious soil erosion. In the northern parts of the country, where agriculture was first developed, there is severe land degradation, with sometimes the complete removal of soil from the slopes. Forest cover is now reduced to 3 percent of the country. Lack of fuel wood and the consumption of crop residues and dung as fuel diminishes the organic matter in the soil and soil fertility. This is believed to be reducing the arable farming yield potential of the land by 2 percent a year There is overstocking with livestock and there is serious overgrazing in the northern highlands. Thus, in some areas, particularly in the more arid north, the land is no longer sufficient in quantity and quality to sustain the existing population. At the same time there are lower-lying districts to the south and west where agricultural potential is under-exploited.

The War. There has been endemic civil strife in the north of Ethiopia since the 1960s. The government has suffered a series of military reverses in Eritrea, Tigray, Wollo, and Gondar since early 1989. The larger part of these provinces is effectively now under the authority of insurgent forces. In February 1990, the port of Massawa, the principal point of entry for relief supplies for drought-stricken areas in the north of Ethiopia, was captured by the Eritrean Peoples Liberation Front (EPLF). Discussions leading to peace negotiations were started in July with the Eritrean dissidents and in October with the Tigreans, but have made little progress. Security related expenditure takes 50 percent of the recurrent budget and, as a share of GDP, it has now (1988/89)[1] risen to 15 percent. This is a major drain on resources which would otherwise be available for developing infrastructure and public services and a main cause of the high level of taxation.

Recent Macroeconomic Developments

Since the Revolution in 1974 real GDP has increased by an average of only 2.0 percent a year and per capita income has fallen by over 0.7 percent a year. The economy has stagnated in the 1980s in the course of which it has suffered debilitating droughts in

1. Fiscal year ends July 7 of the specified year.

1981/82, 1983/84, 1984/85 and 1987/88. The 1983/84 drought was of catastrophic proportions. Since then GDP has grown at a trend rate of 4.5 percent a year. *Nevertheless, agricultural output is now no higher than* it was, on average, in the years 1980/81 to 1982/83.

The ratio of investment to GDP has risen in the 1980s to around 15 percent, despite constraints on domestic and external resources. Domestic savings have averaged around 3 percent of GDP. The low savings rate reflects a government financial deficit occasioned by high expenditure on defence and security and a large non-investment element in the capital budget. The external current account deficit, excluding official grants, has been in the range 7-9 percent of GDP, falling of late as a result of import compression in the face of mounting balance of payments difficulties. The terms of trade fell sharply with the fall in coffee prices in 1987, and again, for the same reason, in the second half of 1989. Foreign exchange reserves fell steeply in 1987/88 and have continued to decline to little over a month's import cover by mid 1989. A further fall is expected in 1989/90, despite a tightening of foreign exchange controls. Per capita official development assistance (as opposed to disaster relief), though rising, has been much less than the average for developing countries in Africa. Ethiopia, hitherto punctilious in servicing its civilian external debt and thus creditworthy to external commercial lenders, is now experiencing mounting difficulty in servicing its external debt.

Notwithstanding poor growth trends, the government's fiscal and monetary management has been generally prudent. The country has a relatively competent central civil service which exercises firm expenditure controls. Fiscal deficits have followed an uneven path, rising from 5 percent of GDP in the early 1980s to peak levels of 16 percent of GDP, in FY83 and FY85. Thereafter, the deficits averaged 9 percent of GDP, before widening to 12 percent of GDP in FY89. Rising capital outlays and recurrent expenditure on defense and economic and social services have, until FY89, been matched by vigorous revenue mobilization which has reached 30 percent of GDP. Revenue raising prospects are now dimmer because exceptional sources of revenue have been exhausted. Domestic (bank) financing has so far rarely risen above 4 percent of GDP thanks to rising external support. Inflationary pressures have been contained by the steady rise in the money supply/GDP ratio.

Inflation as measured by the GDP deflator is low, averaging only 2 percent a year in the eight years ending 1988/89. Many prices are controlled and higher level salaries are frozen. The index of (mostly) free market retail prices in Addis Ababa reflects more strongly the food supply situation. It rose by 19 percent in 1985 following the drought; then fell by 10 percent in 1986 and by a further 2.4 percent in 1987. In 1988 and 1989 it has increased by 7 percent a year, driven by higher food prices.

Government Development Priorities and Plans

Economic plans and policies have been badly affected by the recent deterioration in the internal security situation. A Five-Year Plan (1990-94), which envisaged a 5 percent a year growth rate and was due to take effect in July 1989, has been indefinitely postponed. Public expenditure programming and production planning is carried out in annual budgets and in annual plans and rolling public investment programs.

In the course of 1988 there was a high level, in-depth, reassessment of economic institutions and policies by the party, which brought forward reform proposals which had been in preparation in the government for some time.

Initially, progress with translating the policy into reality was slow. Three decrees were promulgated in 1989 which improved the climate for domestic private and foreign investment. Two of them dealt with domestic private investment. The limits on the value of assets in private small-scale industries and in hotels and restaurants were raised, investment licensing was streamlined and it was made easier for private investors to form companies with limited liability. There has been a sharp increase in the number of licence applications and many existing private enterprises have applied for limited liability status. The third decree made the existing joint venture code considerably more flexible, allowing foreign partners to hold controlling majority shares albeit with government participation, in the equity of joint ventures and permitting private domestic parties also to be shareholders. There are also attractive fiscal, and employment law incentives. This decree has elicited enquiries, but so far no firm investment proposals.

The log-jam of reforms was broken at the Eleventh Plenum of the Central Committee of the Party held on March 5, 1990. Since then there has been a spate of measures designed to liberalize the economy.

The most dramatic reform has been the complete abolition of the compulsory grain quotas which peasant farmers had to deliver to the Agricultural Marketing Corporation at below-market prices, a measure seen as a necessary precondition for increasing agricultural output. This was accompanied by the cessation of low-priced, public distribution of grain to urban residents' shops, significantly increasing the cost of living for the low-income urban population. The marketing of grain is now essentially free; check points have been removed from roads.

There have also been important institutional reforms in agriculture. Peasant farmers have been assured of security of tenure and of the right to bequeath their holdings, though legislation is still in preparation. To be consistent with this, the government has stated that it does not plan to press ahead with its campaign of villagization, begun in the early 1980s. Private commercial farming on leased government land has been authorized by virtue of a new, liberal, investment code promulgated in May 1990. The unpopularity and inefficiency of producer cooperatives has been recognized and the government has issued guidelines for their orderly dissolution.

The Eleventh Plenum decided to liberalize trade and to allow private traders to compete on equal terms with state agencies. The government has announced that restrictions on the licensing of domestic traders will be abolished in the forthcoming annual licensing round, and the licensing of traders in imports and exports has been made less restrictive. More coffee export traders are being licensed and the coffee export auction has been revived, albeit on a limited scale.

The decree on investment of May 6, 1990 removes all remaining restrictions on the number of businesses which a private investor may own, and on the capitalization of these businesses, and most of the restrictions on the sectors in which private investors may invest. Investment in commercial agriculture and in residential and commercial real estate is now allowed. One hundred percent foreign ownership of productive assets is permitted under the investment code. Tax holiday and duty-free equipment import entitlements are greatly widened. Incentives are to be further improved by the announced reduction of the marginal rate of income tax on private proprietorships from 89 percent to 59 percent. Indirect taxes are to be consolidated and streamlined, which will simplify their administration for small businesses and obviate the tendency which affected some of the old taxes.

These reforms are to be complemented by others which are still in preparation. There is to be a law on state enterprises, improving accountability, replacing physical with profit targets and conferring greater autonomy on enterprise managers. This will be complemented by a modification of labor protection legislation which, at present, limits the freedom of managers to control staffing numbers and labor costs. The government proposes to deal decisively with loss-making state enterprises and has announced that, if these cannot be satisfactorily restructured, measures of divestiture or liquidation will be considered. Already some 37 state enterprises in the small business and state farm sector figure in the government privatization/liquidation program. Plans are also being laid for the transfer to private ownership of the housing stock of the government and municipalities.

On the social front, the government has announced a new population strategy to improve information about and access to the means of family planning. It intends to extend access to primary education and primary health care as its budgetary situation permits, and plans to adjust the content of secondary education to improve job prospects for school leavers.

Most elements of the reform program are now in place. However the areas of fiscal policy and exchange rate are under consideration and dialogue with the Bank and the Fund continues. In the area of external trade liberalization progress has also been made and there has been relaxation on own-exchange imports which were, for a time, completely banned. High taxes on imports reinforce the bias against exports arising from currency overvaluation. The government's pricing policy has also been aimed at a freeing of controls with some exceptions. The government has plans for duty-free export processing which will give relief from this, but only for certain eligible investors.

The conduct of fiscal and monetary policies, which was generally prudent, has recently become laxer because of higher military expenditures and some relaxation of the intensive revenue mobilization drive. However, if the private sector is to have access to credit to take advantage of its new freedom, domestic financing of the fiscal deficit should fall below past levels, relative to GDP. State enterprise restructuring and reform, a task which will take several years to accomplish, will eventually reduce public sector financial imbalances. In the interval, however, the effect of liberalizing the domestic economy and of exchange rate adjustment may be to increase public enterprise losses. The government accepts that it will have to review its hitherto extensive public investment program, in recognition of the budgetary restrictions which have prevented many projects from being completed on time, of the role which the private sector will now be able to play in productive projects and of the need to concentrate scarce fiscal resources on the provision and maintenance of essential economic and social infrastructure.

Growth Prospects

Agriculture has the potential for increasing its trend rate of growth significantly above the annual 1.5 - 2 percent which it has achieved over the years since the Revolution. With favorable policies and adequate investment, cash crops could grow rapidly by realizing their export potential. The livestock sector is already largely free of government controls and is not expected to grow significantly above trend. Field crops and agriculture more generally, with favorable policies, can emerge from stagnation and achieve growth of rates above that of population.

Industry, which had been growing until recently at an encouraging 4 percent a year, is now stagnating because of a tightening foreign exchange constraint. Mining has better short to medium-term prospects, thanks to the recent commissioning of a gold mine and other firm or prospective medium-term developments. The economy as a whole, in its present state, is capable of growing more rapidly than population, with favorable policies and sufficient financing to relieve the acute foreign exchange shortage. The adoption of a more comprehensive macroeconomic reform program together with progress toward a peaceful resolution of the conflict in the North may encourage donors to increase their aid disbursements and so advance, and accentuate, the acceleration of growth in the near term. If higher growth is to be sustained, however, Ethiopia's exports must achieve the steady growth which has eluded them over the last decade.

If the foreign exchange constraint persists, and if investment incentives fail to revive private sector confidence for lack of a framework of macroeconomic stability and continued civil war, growth in the medium term, may be confined to peasant agriculture in areas accessible to urban and export markets where there are already signs of a favorable response to the new policy environment.

External Debt. Ethiopia's debt service ratio surged from 16 percent in FY84 to 36 percent in FY89, and an estimated 44 percent in FY90 with the weakening of export earnings following the collapse of coffee prices. It may rise further in fiscal 1991 as maturities on some Eastern Bloc debt, which were postponed from fiscal 1990, fall due. The increase in the debt service ratio is due essentially to continued borrowing on semi-concessional or non-concessional terms, poor export performance and deteriorating terms of trade. Since 1980 debt outstanding and disbursed (US$2.97 billion at the end of 1988) has trebled, as a percentage of GDP.

Ethiopia has no current program with the IMF and has made no formal request to the Paris Club for debt rescheduling. However, with the recent worsening of the balance of payments situation it is likely that the only alternative to higher external resource inflows or debt relief would be damaging reductions in the allocation of foreign exchange to support economic activity.

ETHIOPIA

Mid-1988 Population (mils.)	46
1988 Per Capita GNP in US$:	120

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rates(% per annum) (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	4.0	2.2	1.7	2.1	3.2
Net Indirect Taxes	6.4	7.5	10.3	10.7	11.2	10.2	..	..	..	..	..
Agriculture	53.8	46.6	45.6	38.6	37.5	38.7	2.1	0.6	-1.1	-0.8	5.8
Industry	13.1	14.9	14.0	15.5	15.4	15.1	6.4	1.4	3.5	1.4	2.9
(of which Manufacturing)	7.0	9.3	9.8	10.4	10.4	10.0	8.8	2.6	3.7	2.3	1.9
Services	26.7	31.0	30.2	35.2	35.9	36.0	6.6	3.3	3.6	4.0	3.7
Resource Balance	-1.0	2.0	-5.2	-11.1	-11.2	-9.8	..	..	..	..	..
Exports of GNFS	11.9	13.0	13.9	11.4	11.3	11.7	3.3	1.1	-0.6	..	..
Imports of GNFS	12.9	11.0	19.0	22.5	22.5	21.5	0.8	7.8	7.9	..	..
Total Expenditures	101.0	98.0	105.2	111.1	111.2	109.8	..	..	..	..	..
Total Consumption	87.7	86.6	95.1	96.5	95.5	95.4	..	..	..	..	..
Private Consumption	77.1	75.9	79.9	77.2	71.5	70.9	..	..	..	..	..
General Government	10.6	10.7	15.2	19.3	24.0	24.5	3.7	8.3	5.6	..	..
Gross Domestic Investment	13.3	11.4	10.0	14.6	15.6	14.4	1.5	-1.6	2.0	..	..
Fixed Investment	13.3	11.4	10.0	14.6	15.6	14.4	..	-3.7	2.0	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	12.3	13.4	4.9	3.5	4.5	4.6	..	..	..	..	..
Net Factor Income	-0.5	-1.0	0.2	-0.7	-1.1	-1.3	..	..	..	..	..
Net Current Transfers	0.0	0.5	0.5	3.0	2.1	2.4	..	..	..	..	..
Gross National Saving	11.7	12.9	5.5	5.8	5.5	5.8	..	..	..	..	..
In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	6,006	8,210	9,672	11,196	11,427	11,797	4.0	2.2	1.7	2.1	3.2
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	5,974	8,131	9,687	11,119	11,307	11,647	4.0	2.4	1.5	1.7	3.0
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	78.9	113.6	102.5	100.0	107.1	..	1.8	14.9	3.9	7.1	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	87.9	102.8	105.5	100.0	101.0	104.7	1.9	5.7	2.1	1.0	3.7
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.6	2.8	2.5
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	16.4	-34.0	6.2
Gross Domestic Saving	16.5	-43.6	2.2
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	86.2	83.4	79.8	..
Industry	5.3	6.5	7.9	..
Services	8.5	10.1	12.3	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.BEV.COFFEE	99.9	83.4	90.4	100.0	88.8	115.1	305	225	321	253	212	279
X.MAN.HIDES	104.0	99.1	129.4	100.0	84.3	95.1	67	46	58	52	64	60
X.FOOD.X	347.2	262.5	135.8	100.0	244.8	221.5	32	25	20	24	35	24
X.FUEL	94.0	102.8	95.1	100.0	112.4	93.7	26	33	21	13	17	9
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	30	30	26	42	46	48
Total Exports FOB	102.1	95.7	97.3	100.0	91.9	104.7	459	359	446	384	374	420
F. Merchandise Imports												
Food	21.4	100.3	141.2	100.0	90.0	87.9	37	194	294	194	137	201
Fuel and energy	91.8	88.5	89.2	100.0	92.2	94.7	155	154	122	111	105	120
Other Consumer Goods	..	..	..	..	..	..	118	218	278	259	225	259
Other Intermed. Goods	..	..	..	..	..	..	..	140	..	..	..	..
Capital goods	..	..	..	..	..	..	213	249	359	463	522	397
Total Imports CIF	56.6	100.9	116.7	100.0	96.8	95.0	692	975	1,087	1,081	1,099	1,074

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	117.0	97.7	119.3	100.0	105.8	104.4
Merch. Imports Price Index	113.1	89.4	86.2	100.0	105.1	104.6
Merch. Terms of Trade	103.5	109.3	138.4	100.0	100.8	100.0

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	569	549	662	616	629	698
Merchandise (FOB)	459	359	446	384	374	416
Non-Factor Services	110	190	216	232	256	282
Imports of Goods & NFS	782	1,082	1,211	1,217	1,252	1,283
Merchandise (FOB)	692	975	1,087	1,080	1,099	1,111
Non-Factor Services	90	107	124	137	153	173
Resource Balance	-213	-533	-549	-601	-623	-585
Net Factor Income	7	-33	-29	-37	-63	-76
(interest per DRS)	17	35	46	52	78	73
Net Current Transfers	20	145	210	163	118	145
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-186	-421	-368	-475	-567	-516
Net Official Transfers	60	298	293	212	188	231
Curr. A/C Bal. after Off. Transf.	-126	-123	-75	-264	-379	-285
Long-Term Capital Inflow	90	242	259	272	307	122
Direct Investment	..	..	..	..	..	..
Net LT Loans (DRS data)	85	283	236	308	305	96
Other LT Inflow (Net)	5	-41	23	-36	2	26
Total Other Items (net)	-4	-71	-19	-28	-117	191
Net Short Term Capital	-14	42	-13	10	5	5
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	11	-114	-6	-38	-122	187
Changes in Net Reserves	40	-48	-165	20	190	-28
Net Credit from the IMF	-2	-25	0	22	13	12
Other Reserves Changes	42	-23	-165	-2	177	-41
As Share of GDP:						
Resource Balance	-5.2	-11.2	-10.5	-11.1	-11.2	-9.8
Interest Payments	0.4	0.7	0.9	1.0	1.4	1.2
Current Account Balance	-4.5	-8.8	-7.0	-8.8	-10.2	-8.6
Memorandum Items:						
Reserves excl. Gold (mil. US$)	80	148	251	123	64	46
Reserves incl. Gold (mil. US$)	262	216	332	224	150	123
Official X-Rate (LCUs/US$)	2.07	2.07	2.07	2.07	2.07	2.07
Index Real Eff. X-R Base 1980	100.00	162.37	120.11	102.33	102.48	109.66
GDP (millions of current US$)	4,106	4,778	5,233	5,409	5,574	5,969

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	18.4	23.5	25.9	26.1	29.3	..	10.0	20.8	4.3	15.4	..
Current Expenditures	18.6	27.3	23.9	23.7	26.1	..	9.4	-3.8	2.3	13.6	..
Current Budget Balance	-0.2	-3.8	2.0	2.4	3.1	..	..	..	28.0	32.8	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	23.6	39.3	37.5	36.0	38.8	..	21.0	24.0	-6.0	6.0	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-5.1	-15.8	-11.6	-9.9	-9.6	..	..	..	..	..	..
Official Capital Grants	0.7	6.4	4.1	2.9	2.4	..	46.2	-29.8	-27.3	-14.8	..
External Borrowing (net)	2.0	3.4	4.4	3.5	3.5	..	5.5	42.5	-17.9	3.4	..
Domestic Non-Bank Financing	..	..	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	..	4.8	3.3	3.8	3.3	..	..	-24.4	17.8	-10.3	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	85	283	236	308	305	96	669	1,721	2,048	2,535	2,790	2,810
Official Creditors	58	230	214	243	246	118	619	1,441	1,734	2,126	2,329	2,381
Multilateral	32	70	50	107	108	115	340	602	689	863	941	1,026
of which IBRD	-4	-5	-6	-9	-10	-10	56	49	54	57	42	33
of which IDA	28	48	35	83	71	66	249	437	486	601	658	718
Bilateral	26	160	164	137	138	3	280	839	1,045	1,262	1,387	1,356
Private Creditors	26	53	22	65	60	-22	49	280	314	410	461	429
Suppliers	28	49	45	11	18	-14	35	128	183	215	227	208
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	85	283	236	308	305	96	669	1,721	2,048	2,535	2,790	2,810
IMF Credit	9	-36	5	-20	-17	-23	79	71	84	76	55	30
Net Short-Term Capital	-14	42	-13	10	5	5	57	77	83	98	133	106
Total incl. IMF & Net ST	79	289	228	298	293	78	804	1,869	2,215	2,708	2,978	2,946

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	8.35	2.85	2.66	2.24	1.50	1.17
2. IDA as % of Total	37.17	25.36	23.72	23.71	23.59	25.54
3. IBRD+IDA as % of Total	45.52	28.21	26.38	25.95	25.09	26.71
Share of LT Debt Service						
1. IBRD as % of Total	29.82	7.33	6.38	7.27	5.17	4.41
2. IDA as % of Total	6.14	6.34	5.20	5.16	4.33	3.13
3. IBRD+IDA as % of Total	35.96	13.66	11.58	12.42	9.50	7.54
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	113.21	308.13	301.43	400.62	438.39	399.18
2. IMF Credit/Exports	13.45	12.73	12.38	11.96	8.64	4.29
3. Short-Term Debt/Exports	9.57	13.84	12.26	15.42	20.87	15.06
4. LT+IMF+ST DOD/Exports	136.22	334.70	326.07	428.00	467.90	418.52
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	16.28	36.02	39.13	46.87	50.05	47.08
2. IMF Credit/GDP	1.93	1.49	1.61	1.40	0.99	0.51
3. Short-Term Debt/GDP	1.38	1.62	1.59	1.80	2.38	1.78
4. LT+IMF+ST DOD/GDP	19.59	39.13	42.33	50.08	53.42	49.36
Debt Service /Exports						
1. Public & Guaranteed LT	5.79	18.08	22.63	28.49	37.37	40.87
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	5.79	18.08	22.63	28.49	37.37	40.87
4. IMF Repurchases+Serv. Chgs.	0.36	7.56	6.24	3.95	3.27	3.79
5. Interest only on ST Debt	1.44	1.07	0.81	0.98	1.26	1.14
6. Total (LT+IMF+ST Int.)	7.59	26.71	29.68	33.42	41.89	49.46

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Fiji

Fiji became an independent country in 1970. It is composed of more than 300 islands in the South Pacific, with a combined land area of 18,300 square kilometers. It has a population of about 732,000, of whom about 90 percent live on the two main islands, Viti Levu and Vanua Levu. The society is multiracial: Fijians of Indian descent constitute about 49 percent of the population; indigenous Fijians of Melanesian and Polynesian origin account for about 46 percent of the population; and the remainder are mainly of European or Chinese origin.

Fiji is relatively prosperous by South Pacific standards. Its per capita income of US$1,500 in 1988 (Atlas methodology), while lower than in previous years, was more than twice that of most other South Pacific member countries. The economy is based on a competitive sugar industry, a major tourism industry, significant industrial production, and related trade, banking, and government services. The sugar industry accounts for about 15 percent of GDP, 20 percent of employment, and over 50 percent of merchandise export receipts. It has been partly insulated from recent movements in sugar prices by long-term international contracts, although production and export volumes fluctuate widely. Sugar production and tourism together normally account for more than 50 percent of the country's total foreign exchange earnings.

The high degree of political stability which had supported Fiji's economic development, and its growth as a center of regional economic cooperation, was interrupted by two military coups in May 1987 and September 1987. The effects on production, investment and incomes were immediate and severe. The economy was quickly stabilized, at reduced levels of activity, by an interim civilian government which is now taking steps both to promote economic recovery and to re-establish the constitutional and political basis for new development. A draft constitution is being discussed but some uncertainties are likely to persist while the political issues are being resolved.

Economic Performance

Fiji's economy had developed rapidly in 1965-73 with propitious external conditions, its structure diversifying through large investments in infrastructure and the social services as well as in agriculture, tourism, and manufacturing. Over the period 1974-86, however, real GDP growth averaged less than 3 percent a year, and on a generally declining trend as the main sources of earlier growth—sugar, tourism and public investment—lost their momentum. Among the factors contributing to the slowdown were more difficult international trading conditions and adverse weather developments, especially in the 1980s. There was also a loss of dynamism in the economy as the public sector increased in size and its activities multiplied; private sector activity became more subject to detailed planning, regulation, and administrative intervention; and the stance of economic policies shifted toward the effort to maintain stability rather than promote growth.

In 1980-85, real GDP increased by an average of little more than 1 percent a year. There was no increase in paid employment, and per capita incomes declined. Changes in the direction of economic strategy and policies were forecast in the Ninth Development Plan, for the years 1986-90, but, because of the improved economic performance registered in 1986 and into 1987, no major new initiatives were taken.

Real GDP increased by nearly 8 percent in 1986 due to bumper sugar production, increased tourist arrivals, and growth in other sectors. The economy thus entered 1987 in an apparently comfortable position. However, the situation was, unfortunately, upset by the May and September military coups. The immediate results included a sharp loss of business confidence, increased emigration, and capital flight. The sugar harvest was interrupted and tourist arrivals dropped precipitously. Temporarily, investment almost ceased and the external position deteriorated. Against this background, the new government took firm actions to restore macroeconomic stability. The measures proved effective in restoring external equilibrium (assisted by record sugar earnings) and in containing inflationary pressures following two devaluations of the Fiji dollar. However, a large fall in government revenues more than offset budgetary reductions, and the internal deficit increased.

The government next turned its attention to policies that would promote economic recovery and stimulate investment. Agricultural incentives were revised, and tax-free zones were established to promote labor-intensive manufacturing export activities. Special efforts were made to revive tourism and attract new investment. Some initiatives have also been taken to compensate for losses of skills through emigration. These measures have contributed to the restructuring of the economy and to the improvement of business confidence. There was a substantial movement toward economic recovery in 1988, although due to drought conditions a strong increase in output was not possible until 1989. There was rapid growth in GDP in 1989, boosted by a 30 percent increase in sugar production, but also accompanied by a strong recovery in other sectors, at least to 1986 levels, and an expansion in export manufacturing, which provided evidence of new dynamism in the economy.

Debt Management

Trends in external debt have been associated with the implementation of major public sector infrastructure projects. Total external debt outstanding more than doubled between 1979 and 1983, amounting to about US$400 million, or 35 percent of GDP. This was accompanied by an increase in the public debt service ratio to nearly 11 percent by 1984. Between 1984 and 1987, the growth of public debt and debt service was contained. Following large repayments of both public and private debt in 1987 and 1988, debt outstanding has been reduced to an estimated 33 percent of GDP, and public debt service to an estimated 9.5 percent of exports of goods and services in 1989. With substantial continuing grant assistance to complement external borrowing for public-sector investment needs, the public debt service ratio should continue to ease over the medium term. The government has in the past managed its external financing prudently and can be expected to maintain that tradition.

Development Prospects and Policies

Fiji's main development challenge in the 1990s is to sustain the rapid pace of economic growth that is essential to absorb its labor force productively. In recognition of this, Fiji's Ninth Development Plan (1986-90) envisaged a 5 percent per annum growth rate with two main sectors, sugar and tourism, providing the impetus for further development and employment creation. The considerable potential for growth in sugar and other agricultural production for export, in forestry and fisheries, in manufacturing for export and in the tourist industry is now beginning to be realized under changed economic policies. Devaluation and greater wage flexibility has made Fiji more competitive. The changes in industrial and agricultural policies, are likely to attract new investment. In some sectors, notably forestry, fisheries and mining, growth appears to be relatively assured. Further growth will therefore depend largely on the maintenance of a sound macroeconomic policy framework.

Policies should therefore ensure that the competitive gains achieved through the 1987 devaluations are preserved through cautious fiscal and monetary policies, and if necessary, through further exchange rate adjustment. To support competitiveness and promote employment-intensive investment, wage moderation should be maintained in the regulated wage sector and increasing wage flexibility would be promoted by not re-establishing minimum wage regulations for ongoing and new manufacturing investments. Efficiency can be promoted throughout the economy by continuing to reduce distortions stemming from import restrictions, high tariffs, and remaining price controls and agricultural subsidies—in general, by stimulating economic activity through the removal of disincentives and the development of market rather than special incentives. In addition, it will be necessary to identify and implement priority public expenditures, with the emphasis on operations and maintenance, infrastructure bottlenecks, and human resource development.

Under these policies, more sustained growth should be possible in each of the three major sectors. In agriculture, improving market access is an important area which will require improved maintenance and rehabilitation of rural roads. The role of government in promoting new export crops should concentrate increasingly on providing essential scientific, extension, infrastructure and other support; government involvement as a commercial investor should be limited to joint ventures. Some of the best prospects for major increases in agricultural production appear to lie in sugar. Given the strong producer interest in expansion, the favorable medium- to long-term market prospects, and the opportunities for increased Fijian participation, the feasibility of major expansion of the sugar industry should be fully explored and assessed.

In manufacturing, following the recent success in exporting, the government could prepare and announce a general statement of industrial and trade policies which would include initiatives to date, notably on licensing control and tariff reform and the directions for further policy development in the medium term. The aim would be to establish the credibility of the program and reduce uncertainty. Trade tax reform may be seen as part of an overall reassessment of the tax regime. Training and skills requirements need to be addressed in a coordinated manner not just for exports but for the manufacturing sector as a whole.

For tourism, the immediate need is for an increase in airline service essential to cater for growth in arrival numbers. The second requirement is for increased private investment in hotels and a wider range of attractions, with the government providing support primarily through infrastructure development. Tourism potential exists over a very wide spectrum in Fiji. Major projects may have the greatest employment benefits, including ancillary, often small scale facilities associated with them. Nevertheless a strong case can be made for secondary tourism development.

If investor confidence can be fully restored and if the government is successful in pursuing the agenda outlined above, Fiji has good prospects for achieving much higher rates of growth over the medium-term than experienced in recent years. While private investment will be concentrated in manufacturing, agriculture and tourism, the main focus of public investment will need to be on the provision of physical infrastructure and development of human resources. Higher rates of GDP growth in turn would allow for a strong recovery in private consumption, raising per capita consumption to well above the pre-1987 levels.

Export performance could be impressive, especially if the sugar industry performs well and a start to expansion of producing areas is made. Some other commodity exports are also expected to grow strongly, especially forestry and fisheries products, although the fastest growth and greatest change would be in the value of manufactured exports. Higher growth in imports would be needed for the larger volume of inputs for domestic and export production, and for increased consumer goods imports as incomes rise and trade restraints are eased. Nevertheless, the current account is projected to be close to balance until 1992, moving later into a moderate deficit position. On the capital account, net foreign direct investment inflows should be larger, moving toward the relatively high levels achieved early in the 1980s. External aid requirements would remain moderate. The financing requirements for public sector investment are not as high as they were earlier in the 1980s, and much of the additional capital required can be found internally, with faster growth, rather than through larger borrowing abroad.

Because of the more rapid growth of export earnings, Fiji's external debt situation appears likely to improve markedly during the 1990s, with the ratio of total debt service to exports of goods and services declining, from about 13 percent in 1989, with corresponding declines in the public debt service ratio from 7.5 percent. Reserves should be maintained at levels adequate for protection against fluctuations in export earnings (which can be expected to be large) and likely external or domestic production shocks.

Fiji appears to have the capacity to service its external debt without difficulty. Major losses in export earnings, and large compensatory or unanticipated external borrowing, would be necessary to alter this conclusion. Any assessment of Fiji's prospects has to recognize its vulnerability to external commodity price shocks or changes affecting market access, tourism demand or the costs of external finance. Such changes would affect production and export growth or import capacity but, on balance, do not appear likely to exert a negative influence outweighing the positive developments (e.g., in sugar prices), now favoring Fiji.

Projections of the external financing requirements and sources suggest that these will remain moderate in 1990-94. It appears likely that the combination of official lending and grant assistance required to supplement private capital inflows and the domestic financing of the public sector's development programs, in 1990-92, can be secured on the basis of existing and new commitments, including those being sought at the first Round Table Meeting.

FIJI

Mid-1988 Population (000)	732
1988 Per Capita GNP in US$:	1,520

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates (% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	8.1	3.9	-0.6	0.4	12.5
Net Indirect Taxes	10.4	11.1	8.4	9.6	9.9	9.9	..	..	..	..	..
Agriculture	30.3	22.4	20.3	21.5	21.4	21.4	1.4	4.9	1.0	-2.3	13.8
Industry	22.7	19.7	20.2	18.9	18.8	18.8	6.2	3.8	-2.7	-7.8	20.3
(of which Manufacturing)	15.6	9.3	10.9	9.2	9.1	9.2	2.4	6.6	-0.1	-5.4	18.6
Services	36.6	46.8	51.2	50.1	49.9	49.9	12.2	3.2	1.6	4.1	9.8
Resource Balance	-7.9	-13.5	-4.9	2.8	2.4	-0.6	..	..	..	..	..
Exports of GNFS /1	46.3	45.3	47.8	46.3	55.2	57.7	9.6	2.8	0.9	..	..
Imports of GNFS	54.2	58.8	52.7	43.5	52.8	58.3	10.2	4.1	-3.9	..	..
Total Expenditures	107.9	113.5	104.9	97.2	97.6	100.6	8.5	4.5	-2.8	..	..
Total Consumption	90.8	89.8	75.5	83.3	84.5	84.7	8.2	3.8	-1.2	..	..
Private Consumption	77.3	77.2	59.6	65.0	69.2	70.4	8.2	2.8	-2.1	..	..
General Government	13.4	12.5	15.9	18.3	15.3	14.3	8.3	9.4	2.4	..	..
Gross Domestic Investment	19.8	22.2	31.8	13.9	13.1	15.9	9.5	7.2	-9.3	..	..
Fixed Investment	18.0	19.4	25.4	13.6	12.4	14.3	9.1	6.2	-7.8	..	..
Changes in Stocks	1.8	2.8	6.4	0.4	0.8	1.6	..	..	..	..	..
Gross Domestic Saving	11.9	8.7	26.9	16.7	15.5	15.3	4.4	12.7	0.2	..	..
Net Factor Income	-4.2	-1.4	-1.5	-3.6	-5.3	..	..	..	..	..	..
Net Current Transfers	0.0	-0.2	-0.2	-1.8	-0.3	1.4	..	..	..	..	..
Gross National Saving	7.7	7.2	25.2	11.3	9.9	..	4.9	13.8	-2.6	..	..

In millions of F$ (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	647	1,175	1,492	1,421	1,427	1,605	8.1	3.9	-0.6	0.4	12.5
Capacity to Import	275	489	733	658	..	..	8.7	5.2	0.0	..	..
Terms of Trade Adjustment	-15	-81	90	0	..	..	..	..	..	..	..
Gross Domestic Income	632	1,094	1,582	1,421	..	..	7.7	5.0	-1.0	..	..
Gross National Product	619	1,157	1,472	1,370	1,336	..	8.3	3.9	-1.0	-2.5	..
Gross National Income	604	1,076	1,562	1,370	..	..	7.8	5.0	-1.3	..	..

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64) /2	66.6	93.0	94.6	100.0	111.8	118.7	..	9.8	5.9	11.8	6.2
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	65.9	93.4	96.8	100.0	108.1	114.8	5.4	10.2	6.4	8.1	6.3
Implicit Expenditures Defl.	62.3	92.7	96.3	100.0	..	..	5.8	9.0	7.0	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.2	1.9	1.9
Labor Force	..	..	..
Gross Natl. Income p.c.	5.5	3.0	-3.2
Private Consumption p.c.	5.8	0.9	-3.9
Import Elasticity:			
Imports (G+NFS) / GDP(mp) /3	1.3	1.1	6.9
Marginal Savings Rates:			
Gross National Saving	6.4	95.8	546.9
Gross Domestic Saving	4.9	96.1	..
ICOR (period averages) /4	..	6.1	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	55.3	49.7	46.2	..
Industry	17.1	16.9	16.7	..
Services	27.6	33.5	37.1	..
Total	100.0	100.0	100.0	100.0

Notes:

1/ Goods and nonfactor services.
2/ Denotes the line number in the country pages of the International Financial Statistics, IMF.
3/ At market prices.
4/ Incremental capital-output ratio.
e/ Estimated data.

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) e/ 1980	1985	1986	1987	1988	1989
X.FOOD.SUGAR	89.8	83.6	72.8	100.0	95.2	96.8	213	97	118	152	139	145
X.MET.AU	29.1	69.8	108.7	100.0	173.8	128.2	15	19	34	41	57	49
X.FOOD.FISH	70.0	65.0	96.2	100.0	105.0	108.2	11	10	16	21	34	35
X.FOOD.COCONUT OIL	216.5	183.1	233.1	100.0	57.1	100.0	8	7	4	3	2	4
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	96	104	104	117	136	186
Total Exports FOB /a	89.4	115.9	80.6	100.0	102.2	111.9	343	237	276	334	368	419
F. Merchandise Imports												
Food	..	..	..	..	..	..	84	73	72	70	81	83
Fuel and energy	..	..	..	..	..	..	136	100	73	62	62	100
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	127	80	103	74	97	152
Total Imports CIF	..	..	..	..	..	..	561	441	439	380	461	607

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	85.3	69.3	93.0	100.0	126.1	129.2
Merch. Imports Price Index	84.0	94.0	86.8	100.0	122.0	..
Merch. Terms of Trade	101.5	73.7	107.2	100.0	103.3	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	577	508	532	525	593	659
Merchandise (FOB)	343	206	243	302	348	388
Non-Factor Services	234	302	289	224	245	271
Imports of Goods & NFS	618	512	522	504	571	648
Merchandise (FOB)	493	382	367	330	400	452
Non-Factor Services	125	131	155	174	171	196
Resource Balance	-41	-5	10	21	21	11
Net Factor Income	-17	-32	-31	-47	-19	-39
(interest per DRS) /5	10	25	25	26	25	33
Net Current Transfers	-2	-9	-5	-21	-4	17
(workers' remittances)	..	..	..	0	19	25
Curr. A/C Bal. before Off. Transf.	-60	-46	-26	-46	-1	-11
Net Official Transfers	35	33	15	10	34	20
Curr. A/C Bal. after Off. Transf.	-25	-13	-11	-36	33	9
Long-Term Capital Inflow	74	2	-24	-52	2	18
Direct Investment	34	1	-14	-28	-5	31
Net LT Loans (DRS data)	67	3	-13	-19	7	-20
Other LT Inflow (Net)	-27	-2	3	-5	1	7
Total Other Items (net)	-9	6	66	24	80	..
Net Short Term Capital	-4	29	47	9	58	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-5	-23	19	16	21	0
Changes in Net Reserves	-40	5	-31	63	-115	..
Net Credit from the IMF	-9	1	-7	-1	-3	0
Other Reserves Changes	-32	4	-24	64	-112	..
As Share of GDP:						
Resource Balance	-3.4	-0.4	0.8	1.8	2.0	0.9
Interest Payments	0.8	2.2	1.9	2.2	2.3	2.7
Current Account Balance	-5.0	-4.0	-2.0	-4.0	-0.1	-0.9
Memorandum Items:						
Reserves excl. Gold (mil. US$)	168	131	171	132	233	212
Reserves incl. Gold (mil. US$)	174	134	175	133	234	212
Official X-Rate (F$/US$)	0.82	1.15	1.13	1.24	1.43	1.48
Index Real Eff. X-R Base 1980	100.00	105.13	94.56	80.47	68.21	..
GDP (millions of current US$)	1,204	1,142	1,299	1,161	1,076	1,242

Notes:

5/ The Bank's Debtor Reporting Service.
a/ Values include reexports.
e/ Estimated data.

I. Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	24.3	26.3	23.5	24.1	25.9	24.0	8.4	-0.1	-1.1	16.5	10.9
Current Expenditures	18.9	24.8	22.5	25.0	22.4	20.4	14.9	1.4	7.4	-3.2	9.3
Current Budget Balance	5.3	1.5	1.0	-0.9	3.6	3.6	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	10.4	4.3	5.7	4.2	4.3	6.4	-16.5	49.6	-27.9	10.4	76.3
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-5.1	-2.8	-4.7	-5.2	-0.8	-2.8	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	3.1	0.0	-0.2	-1.1	-1.4	0.2	..	..	..	..	..
Domestic Non-Bank Financing	0.4	2.7	2.8	4.1	3.2	2.1	..	..	..	..	..
Domestic Bank Financing	1.6	0.2	2.1	2.2	-1.0	0.4	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	67	3	-13	-19	7	-17	180	302	312	334	330	313
Official Creditors	39	-8	-1	-3	6	-11	124	220	241	280	276	265
Multilateral	22	-5	-1	1	14	-4	65	144	165	194	194	190
of which IBRD	5	-6	-6	-6	-2	-4	34	63	71	80	72	66
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	17	-3	0	-4	-8	-7	59	76	76	86	82	76
Private Creditors	28	11	-12	-16	0	-6	56	82	70	54	54	48
Suppliers	2	11	-3	-4	13	-6	13	20	18	12	24	21
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	-3	65	108	102	104	101	98
Total LT	67	3	-13	-19	7	-20	245	410	413	438	431	411
IMF Credit	-9	0	-8	-2	-2	-3	0	15	8	7	4	4
Net Short-Term Capital	-4	29	47	9	58	..	36	19	20	22	31	14
Total incl. IMF & Net ST	55	32	26	-12	63	..	281	444	441	466	467	429

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD /6						
1. IBRD as % of Total	13.68	15.46	17.20	18.29	16.67	16.10
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	13.68	15.46	17.20	18.29	16.67	16.10
Share of LT Debt Service						
1. IBRD as % of Total	16.43	18.88	20.49	20.93	25.00	16.26
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	16.43	18.88	20.49	20.93	25.00	16.26
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	40.81	78.57	74.96	80.19	67.35	58.65
2. IMF Credit/Exports	0.00	2.78	1.43	1.23	0.62	0.57
3. Short-Term Debt/Exports	6.00	3.64	3.63	3.94	4.90	2.00
4. LT+IMF+ST DOD/Exports	46.81	84.98	80.02	85.36	72.88	61.22
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	20.34	36.00	31.80	38.30	40.10	33.10
2. IMF Credit/GDP	0.00	1.27	0.61	0.58	0.37	0.32
3. Short-Term Debt/GDP	2.99	1.66	1.54	1.85	2.92	1.13
4. LT+IMF+ST DOD/GDP	23.33	38.86	33.92	40.15	43.38	34.55
Debt Service /Exports						
1. Public & Guaranteed LT	3.45	11.50	10.80	12.10	10.60	9.50
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	3.40
3. Total Long-Term Debt Service	3.45	10.65	10.27	11.46	9.62	12.90
4. IMF Repurchases+Serv. Chgs.	1.47	1.19	1.60	0.48	0.44	0.49
5. Interest only on ST Debt	1.05	0.31	0.24	0.37	0.47	0.36
6. Total (LT+IMF+ST Int.)	5.97	12.72	12.11	12.31	10.53	16.22

Notes:

6/ Debt outstanding and disbursed.
e/ estimated data.

Gabon

Gabon is a sparsely populated, oil producing country with a population of 1.1 million and a per capita income of US$2,770 in 1989—down from US$4,000 in 1980, but still the highest in Sub-Saharan Africa. Gabon's relative prosperity is based on rich natural resource endowments and substantial inflows of foreign capital and labor. Gabon's position as an upper-middle-income country disguises, however, severe structural imbalances associated with its dependence on oil exports and the absence of a sustainable productive base outside the oil and mining sectors.

The initial post-independence period (1960-72) was characterized by stable real growth (6 percent a year) and relatively sound economic management. The export of mostly unprocessed natural resources and the limited contribution of agriculture to GDP emerged as the principal structural features of Gabon's economic development. Facilitated by foreign investment, enclave-type industries for the exploitation of manganese, oil, and uranium replaced timber as the leading sector and contributed to Gabon's increasing opening to trade. Exports reached close to 50 percent of GDP during this period. In contrast, agricultural activities, whose share of GDP averaged only 11 percent, were constrained by the lack of infrastructure, low profitability, and the small, widely dispersed rural population.

Oil Windfalls and Economic Instability

The oil price shock of 1973 started a new era in Gabon's development, marked by a growing linkage of the domestic economy to swings in the international oil market, an unparalleled growth of the public sector, and the emergence of structural rigidities in response to fluctuations in demand. The oil sector became the dominant force in the economy, contributing 45 percent of GDP and accounting for 63 percent of budgetary revenue and 83 percent of export receipts in 1985. The two major oil price increases in 1973 and 1980 led to an acceleration of GDP in succeeding years, followed by periods of major contraction when oil prices dropped between 1977-79 and after 1985. In 1980-85, real GDP growth averaged 2.3 percent a year (non-oil GDP: 4.2 percent); inflation, however, averaged 15 percent. In 1985-89, real GDP declined by 3 percent a year (non-oil GDP: -4.1 percent). The recurring economic instability has confirmed the economy's vulnerability to changes in the international oil market, and thus underlined the need for comprehensive policy reform to diversify the economy and remove price and other distortions that have accompanied Gabon's oil prosperity.

The impact of oil windfalls on income distribution and social welfare objectives has been disappointing. Real wage gains favored formal sector employment and were far above productivity increases, thereby rendering Gabon's non-oil productive activities increasingly uncompetitive. In contrast, smallholder farmers and a growing, underemployed labor force in the informal sector did not share in one of the highest wage levels in Africa. As a result, oil rents diverted scarce entrepreneurial talent and rural labor away from commodity production to construction and urban rent-seeking activities and financed a vast expansion of public and parastatal employment. This 'wage-pull' effect curtailed prospects for successful export diversification, increased Gabon's dependence on food imports, and reinforced the depopulation of rural areas. Also, the delivery of high-cost social services favored urban areas, whereas more adapted rural delivery systems were largely absent, thereby further stimulating Gabon's rapid urbanization.

The domestic recycling of oil windfalls did not lead to a sustained transformation of the economy, primarily because massive government spending ignored the constraints posed by Gabon's limited absorptive capacity. These include a narrow, high-cost domestic market, a small labor force, and a weak response by the private sector. The doubling of fiscal revenues between 1980 and 1985 prompted the government to continue a development strategy based on the financing of poorly conceived, large-scale investment projects and the creation of a large parastatal sector.

The Trans-Gabonese railroad alone absorbed more than a third of all capital expenditures, with no prospect of ever recovering its cost of more than US$2 billion. Although capital expenditure rose twice as fast as revenue during that period, less than 10 percent of the investment budget was devoted to promoting directly productive activities or providing services to smallholder agriculture. With a portfolio of 65 wholly or partially owned public enterprises, which extended to almost every sector by 1985, the government acted increasingly as a direct producer of goods. However, most of the observed expansion of non-oil productive activities through inefficiently operating parastatals, relied on heavy subsidies and highly protected markets for internationally uncompetitive products. Subsequently, when oil revenues declined, the growth momentum quickly faltered and Gabon's expenditure pattern became unsustainable.

The 1986 collapse in dollar oil prices (-55 percent), in conjunction with the 23 percent appreciation of the CFAF against the U.S. dollar compared to 1985, led to severe external and internal imbalances. The current account deficit jumped from 4.4 percent of GDP in 1985 to nearly 31 percent in 1986, as oil export earnings dropped by 66 percent to CFAF 245 billion. Government oil revenue declined by almost a third, causing the fiscal deficit to widen from 5 percent of GDP (1985) to 15 percent in 1986. Hoping that the deterioration in oil prices would prove to be only temporary, the government relied on external financing to cover the fiscal gap. As a result, the stock of external debt, which had dropped to US$0.7 billion by 1984, almost doubled between 1985-87 to reach US$1.7 billion (53 percent of GNP) in 1987, most of which was contracted on nonconcessional terms.

Faced with a worsening financial situation, the government, at the end of 1986, adopted a stabilization program aimed at regaining budgetary control and containing the current account deficit. Prompted by the 75 percent decline in oil revenue in 1987 over their 1986 level (total revenue: -50 percent), the government slashed capital expenditure by almost 80 percent from CFAF 400 billion (1986) to CFAF 70 billion (1988) and reduced PE subsidies. The 11 percent decline in non-oil revenue in both 1987 and 1988 reflected the serious financial difficulties that had affected the rest of the economy. Nevertheless, the overall outcome under the program stayed below expectations, as the government failed to enforce better control over current non-interest expenditures. In particular, the wage level fell by less than anticipated. Yet, the overall deficit, on a commitment basis, fell from 12.2 percent of GDP in 1987 to 9 percent in 1988, again financed largely by external borrowing and debt relief.

The government's commitment toward continued fiscal stabilization appeared to be reconfirmed in October 1989. However, the fiscal program went off track toward the end of the year, owing to lower than expected oil and non-oil revenue, higher current expenditure, and delays in the disbursement of external financial assistance. As a result, the Treasury accumulated considerable payment arrears, mostly vis-à-vis Paris Club creditors. The overall fiscal deficit, on a commitment basis, worsened to 6.9 percent of GDP in 1989, as against 4.7 percent under the program.

GDP expanded by 2 percent in real terms in 1988, following a 15 percent contraction in 1987. While this slight improvement in 1988 reflected the gradual recovery in the oil sector, value added in all other sectors, except extractive industries, declined further. Most severely affected by this recession, which was passed on via substantially reduced public expenditures, were construction, transport, and service related activities. Although real GDP growth for 1989 is estimated at 5 percent due to a resurgence in oil exploration and forestry activities, the rest of the economy stagnated for the fourth consecutive year, compounded by sharply reduced levels of investment and public spending for social services.

The situation in Gabon's balance of payments remained critical in 1987-88. Although the current account deficit registered an improvement to 11 percent in 1987, mainly due to a 35 percent reduction in imports, relaxation of the fiscal stance and depressed international oil prices prompted a worsening of the current account to 18.6 percent in 1988. The size of fiscal and current account deficits required substantial external support in 1987-88, mainly in form of debt relief obtained through Paris and London Club reschedulings. While scheduled debt service obligations as a share of exports had risen from 13 percent in 1985 to around 28 percent in 1987, debt rescheduling agreements reduced these ratios to 5.5 percent in 1987-88. In 1989, higher oil and manganese export receipts led to a substantial improvement in the current account deficit (5.7 percent of GDP). The overall balance of payments deficit, however, was larger than expected under the government's stabilization program (10.4 percent of GDP) due to a sharp deterioration in the capital account.

Structural Adjustment

To complement its stabilization efforts, the government adopted a broad economic reform program in April 1988, supported by the World Bank, the African Development Bank, and the French government. Its objective was to help restore the competitiveness of the non-oil sectors and return Gabon to a sustainable growth path by: (a) rationalizing the performance of public enterprises; (b) reinforcing public sector resource management; (c) liberalizing the regulatory environment for private sector activity; and (d) reformulating sectoral policies in the non-oil economy.

The ongoing reform of the public enterprise sector represents a significant accomplishment of the structural adjustment program. From near total disarray at the time of the oil price collapse in 1986, the government has undertaken decisive steps toward the restructuring of public enterprises. On the basis of financial audits for 35 public enterprises, the government liquidated five enterprises, opened seven enterprises for private majority ownership, and has announced restructuring programs for another ten enterprises. A management contract with Air Gabon was signed in 1989, and similar negotiations with OCTRA (railways) and SEEG (power) are expected to be finalized in 1990. This has led to the release of several hundred employees. The government successfully committed most public enterprises to reduce their wage bill by an average of 15 percent in 1988/89, involving in some cases reductions of 30 percent or more for higher level managers. Finally, the government has started to restructure the finances of the sector by settling 20 percent of accrued cross debts between parastatals and the government.

In support of these policy reform efforts, the government expanded the authority of the Ministry of Planning over investment decisions, strengthened budgetary discipline, and created an interministerial commission to monitor the structural adjustment program. The government adopted a more comprehensive, medium-term perspective on public resource management by establishing a three-year rolling public investment plan in 1988. This plan aligns public investments more closely with broad economic objectives and details their recurrent expenditure in following years. The government started to reorient infrastructure investments in favor of rehabilitation and maintenance works. Recourse to suppliers' credit and extrabudgetary expenditure as methods of investment financing were eliminated. The government introduced several measures aimed at enhancing non-oil revenues, including the transformation of the compulsory loan on salaries and corporate sales into a solidarity tax and a surcharge on the income tax on private sector salaries. Finally, the government has started to reduce the excessive state consumption of public services.

In the area of incentive reform, the government took measures to liberalize trade, increase the competitive pressure on the cost structure, and stimulate private sector activities. Thus, quantitative import restrictions on all but five commodities were replaced by transitional import tariffs. Price controls on locally produced goods and the trade margins on imported commodities were also removed. In order to encourage non-oil exports, the turnover tax on exports was lifted except on exports of natural resources. The National Assembly modified the Labor Code in order to stimulate the creation of new jobs by allowing enterprises to hire apprentices below the minimum wage and pay workers according to performed tasks. The newly adopted investment code limits the size and duration of tax benefits offered to foreign investors, while being neutral to small and medium-size enterprises.

The government has accorded high priority to the restructuring of the forestry sector on an environmentally sound basis and begun to implement measures aimed at improving the competitiveness of Gabon's timber exports. The poor financial and managerial performance of SNBG, the timber marketing monopoly, severely constrained the viability of private forestry company. The government has taken a decision to privatize SNBG's marketing activities for Okoumé, a species which accounts for two thirds of Gabon's timber exports, and to reform the sector's fiscal statutes. In addition, the government has entered into negotiations with private parties interested in taking over CFG, a large state-owned wood processing company.

In general, the first phase of the structural adjustment program helped to initiate a broad dialogue between the government and donors. The government took difficult initial steps in reorienting its economic policies and gradually reducing the scope of state interventions in favor of private sector activities, most notably by agreeing to a comprehensive restructuring of the parastatal sector. However, the severity of the recession and Gabon's deep-seated structural constraints have limited rapid progress toward a more diversified economy.

Starting in the fourth quarter of 1989, the social and political climate in Gabon grew increasingly tense, reflecting growing dissatisfaction over rising urban unemployment and disenchantment with the one-party system. Following student protests in January 1990, the civil unrest spread through the parapublic and public sectors. The strikers demanded higher wages for lower salaried employees, reimbursement of the solidarity tax, reductions in the cost of living, and departures of unqualified managers. The government gave in to most demands. The impact of these concessions, estimated at CFAF 35 billion, in combination with the general slowdown of economic activity, will be reflected in a considerably higher fiscal gap for 1990, compared with 1989. In particular, the government's wage bill is expected to rise to around CFAF 125 billion, compared with CFAF 104 billion under the program.

In an attempt to calm the political situation, President Bongo convened a National Conference in March 1990, which was attended by more than 150 political groups and professional associations. The Conference participants agreed on: (a) the immediate adoption of a multiparty system, (b) new elections for the National Assembly in October 1990, (c) the formation of a transition government, (d) wide ranging policy reforms in the areas of health and education, and (e) measures to ensure better accountability of public officials. President Bongo indicated that he was prepared to follow these recommendations. As a first step, a transition government was installed in May 1990. It is faced with a difficult challenge of regaining fiscal control while, at the same time, addressing continued social demands, and continuing the policy dialogue with donors on a comprehensive adjustment program. Priority areas include salary reform for civil servants, improved public resource management, continuation of public enterprise reforms, and adaptation and implementation of social programs.

Medium-Term Outlook and Development Strategy

The 1990-92 Investment Plan identifies three principal objectives for the government's medium-term development strategy: (a) restoring sustainable growth and reducing the economy's vulnerability to international oil shocks through the promotion of private non-oil activities; (b) strengthening the government's capacity to implement sustainable expenditure policies in priority sectors in the context of increasing, yet highly volatile revenues; and (c) improving the social welfare conditions through appropriate labor, education and health policies.

In its attempt to direct the economy out of this protracted recession and stimulate growth in the non-oil sectors, the government has to effectively overcome a number of constraints. It must reduce Gabon's high wages and costs. This requires the implementation of a more rational compensation system for government employees and foreign technical assistance; further staff reductions in the parastatal sector and a hiring freeze for the civil service; and tariff reforms for domestically provided services (electricity, telecommunications). It must address the serious bottlenecks and policy-based distortions that inhibit the private sector's supply response to a shift in relative prices. Chief among them are an inadequate and poorly maintained road network; the lack of agricultural services and marketing channels for agricultural goods; the scarcity of private entrepreneurs, which is at least in part due to the prevailing attractiveness of employment in the public and parapublic sector; and the private sector's limited access to bank credits. It must also control the fiscal dynamics of increasing oil revenues. The anticipated rise in oil exports will result in a near tripling of oil revenues in 1991, compared with 1989, testing the government's ability to withstand pressures to again increase public spending on civil service wages and unproductive investments.

Thus, fiscal stabilization will continue to be at the core of the authorities' medium term program. The government has to tighten budgetary control over current expenditures before the onset of the expected oil boom, exercise wage restraint, and restore an economically sound investment program. Of particular importance are the continued rehabilitation of the road network, better execution of the health and education budget, and increased spending for smallholder agriculture. On the revenue side, the authorities have to strengthen customs administration and revenue collection, and eliminate ad hoc exemptions. The restructuring of the public enterprise sector, begun under the first structural adjustment program, will remain a government priority. Proposed measures include: the implementation of performance contracts for key enterprises; institutional strengthening of government oversight; and reduced subsidies to loss-making enterprises.

As these fiscal and structural reforms are implemented, the growth prospects for the non-oil economy should gradually improve, reversing the substantial decline in per capita income over the last decade. Untapped growth opportunities exist in the forestry sector, smallholder agriculture, rubber production, and service related activities. The prospects for non-oil mining activities (manganese, uranium, gold) remain favorable. However, in view of the substantial rigidities and limited private investments, growth in real non-oil GDP is unlikely to exceed population growth (estimated at 2.3 percent a year).

Notwithstanding the positive impact of a diversification strategy in the non-oil economy, the oil sector will provide the main impetus for overall growth in real GDP. Oil production from a major new field (Rabi) started coming on stream in 1989, lifting Gabon's oil production from 8 million MT in 1988 to 10.4 million MT in 1989. Short-term forecasts indicate a peak in 1991, with production from existing wells gradually levelling off in the following years. Provided the political situation stabilizes in the coming months, Gabon's on- and off-shore territories will continue to attract substantial foreign investment from oil companies, with new wells possibly coming on stream by the mid-1990s. The dominant position of the oil sector and the associated dependence of Gabon's economy to swings in the international oil market is likely to continue throughout the 1990s.

The medium term prospects for fiscal recovery are favorable. The combination of additional oil and non-oil revenue and tighter expenditure control are expected to result in a moderate fiscal surplus from 1992 onwards. At the same time, the current account is expected to register a surplus. However, before this economic recovery sets in, Gabon's current financial difficulties require additional external assistance to finance the government's reform program. This includes the rescheduling of commercial and official debt service obligations over the next two years as well as new financing. Following this period, Gabon should be well positioned to meet its debt service payments without further rescheduling, thereby restoring its international creditworthiness. In addition, the government should consider using part of the expected oil bonus to retire part of its external debt obligations ahead of schedule and accumulate net foreign assets in a financial reserve fund.

GABON

Mid-1988 Population (mils.)	1.1
1988 Per Capita GNP in US$:	2,830

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rat es(% per (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-87*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	7.4	3.6	-0.7	2.0	5.0
Net Indirect Taxes	15.7	22.0	14.8	6.1	6.9	6.5	..	..	..	..	..
Agriculture	26.3	11.6	7.2	11.3	11.4	11.8	..	..	..	..	..
Industry	33.9	49.7	61.9	50.2	44.2	45.3	..	..	..	..	..
(of which Manufacturing)	..	..	..	..	17.5	..	..	..	..	..	..
Services	39.8	38.7	30.9	38.6	37.5	36.4	..	..	..	..	..
Resource Balance	5.9	-5.0	32.2	4.1	-1.3	12.9	..	..	..	..	..
Exports of GNFS	43.2	..	..	39.2	38.5	50.4	..	..	..	..	..
Imports of GNFS	37.3	..	..	35.1	39.8	37.5	..	..	..	..	..
Total Expenditures	94.1	105.0	67.8	100.4	108.0	104.4	..	..	..	..	..
Total Consumption	63.2	58.5	39.4	71.5	74.0	75.0	..	..	..	..	..
Private Consumption	51.9	42.9	26.2	47.8	50.6	50.2	..	..	..	..	..
General Government	11.4	15.6	13.2	23.7	23.4	24.8	..	..	..	..	..
Gross Domestic Investment	30.8	46.6	28.4	28.9	34.0	29.4	..	..	..	..	..
Fixed Investment	..	37.5	26.7	28.3	31.4	28.3	..	..	..	..	..
Changes in Stocks	..	9.1	1.7	0.6	2.6	..	..	..	..	..	..
Gross Domestic Saving	36.8	41.5	60.6	34.4	25.7	..	..	..	..	..	..
Net Factor Income	-9.0	-15.1	-11.2	-9.7	-10.8	..	..	..	..	..	..
Net Current Transfers	..	-2.7	-3.7	-4.5	-4.3	..	..	..	..	..	..
Gross National Saving	..	23.8	45.7	20.3	10.6	..	..	..	..	..	..
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	..	..	..	..	..	..	..	..	..	..
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	..	..	..	..	..	..	..	..	..	..	..
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-87*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	..	..	..	..	..	..	..	..	..	..	..
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	1.9	3.0	2.8
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	89.9	627.2
Gross Domestic Saving	47.7	95.8	439.3
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	82.5	78.4	75.4	..
Industry	8.0	9.8	10.8	..
Services	9.5	11.8	13.8	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	Volume Index						Value at Current Prices (millions US$)					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Commodity 1 - Oil	100.0	101.2	96.5	86.2	91.8	118.8	1,956	1,629	706	886	741	1,179
Commodity 2 - Manganese	100.0	100.0	103.3	103.7	128.5	113.1	143	110	110	108	151	185
Commodity 3 - Uranium	100.0	69.2	65.4	65.9	69.4	69.0	113	60	73	80	75	66
Commodity 4 - Timber	100.0	81.3	88.7	77.3	73.3	66.7	236	122	137	156	162	150
	..	..	..	..	..	..	83	30	47	58	66	39
Residual	..	..	..	..	..	..	..					
Total Exports FOB	..	..	..	..	..	..	2,531	1,952	1,074	1,288	1,195	1,619
							2531.2	1952.0	1074.0	1288.0	1195.0	1619.0
F. Merchandise Imports												
Food	..	..	..	..	..	..	108	126	..	..	..	..
Fuel and energy	..	..	..	..	..	..	62	72	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	99	116	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	231	273	..	..	..	..
Capital goods	..	..	..	..	..	..	388	457	..	..	..	..
Total Imports CIF	..	..	..	..	..	..	888	1,045	..	..	..	..

G. Terms of Trade	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices)					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*
Exports of Goods & NFS	2,636	2,026	1,156	1,361	1,270	1,705
Merchandise (FOB)	2,531	1,952	1,074	1,288	1,195	1,619
Non-Factor Services	105	74	82	73	75	86
Imports of Goods & NFS	1,394	1,461	1,554	1,219	1,312	1,268
Merchandise (FOB)	828	855	979	732	792	753
Non-Factor Services	566	606	575	487	520	515
Resource Balance	1,242	565	-398	142	-42	437
Net Factor Income	-603	-632	-513	-466	-430	-525
(interest per DRS)	123	57	51	43	75	152
Net Current Transfers	-157	-109	-170	-146	-154	-133
(workers' remittances)	0	0	0	0	0	0
Curr. A/C Bal. before Off. Transf.	482	-176	-1,081	-470	-626	-221
Net Official Transfers	33	13	23	23	10	19
Curr. A/C Bal. after Off. Transf.	515	-163	-1,058	-447	-616	-202
Long-Term Capital Inflow	-36	214	494	173	314	27
Direct Investment	69	127	234	266	369	79
Net LT Loans (DRS data)	-115	133	329	188	212	152
Other LT Inflow (Net)	10	-46	-69	-281	-268	-204
Total Other Items (net)	-378	-101	433	77	297	188
Net Short Term Capital	-351	-49	321	-193	-18	-173
Capital Flows N.E.I.	0	0	147	316	342	381
Errors and Omissions	-27	-53	-35	-47	-27	-21
Changes in Net Reserves	-101	50	130	197	5	-13
Net Credit from the IMF	-6	0	32	17	81	5
Other Reserves Changes	-95	50	98	181	-76	-18
As Share of GDP:						
Resource Balance	29.0	15.4	-11.5	4.1	-1.3	12.9
Interest Payments	2.9	1.6	1.5	1.2	2.3	4.5
Current Account Balance	12.0	-4.4	-30.5	-12.9	-18.7	-6.0
Memorandum Items:						
Reserves excl. Gold (mil. US$)	108	162	111	11	67	43
Reserves incl. Gold (mil. US$)	115	166	115	16	72	48
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	320.00
Index Real Eff. X-R Base 1980	100.00	89.50	95.80	92.00	76.80	79.10
GDP (millions of current US$)	4,281	3,664	3,468	3,473	3,300	3,381

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-85	1987	1988	1989
Current Receipts	33.7	38.1	41.3	24.2	24.6	23.3	..	-49.2	-4.2	4.6
Current Expenditures	16.1	15.2	18.1	27.4	26.8	22.0	..	31.9	-7.8	-10.0
Current Budget Balance	17.6	22.8	23.3	-3.3	-2.3	1.4	..	-112.2	-34.6	-167.7
Capital Receipts	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	13.3	27.6	31.9	11.6	6.7	6.2	..	-68.4	-45.4	1.3
Adjustments	..	..	..	..	..	..	..	..	..	..
Overall Deficit	4.3	-4.7	-8.7	-14.9	-9.0	-4.8	..	49.5	-43.0	-41.3
Official Capital Grants	0.6	0.3	0.5	0.6	0.5	0.6	..	1.6	-19.4	20.0
External Borrowing (net)	-3.7	2.4	8.1	7.3	8.2	6.5	..	-21.2	5.0	-13.0
Domestic Non-Bank Financing	0.3	-0.2	-0.7	1.2	-1.5	-1.6	..	-260.5	-211.4	21.4
Domestic Bank Financing	-1.5	2.2	0.7	5.7	1.8	-0.6	..	577.3	-70.3	-135.6

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	-115	133	329	188	212	152	1,308	944	1,428	2,064	2,263	2,517
Official Creditors	9	38	48	101	116	131	361	341	447	1,032	1,389	1,577
Multilateral	0	16	13	16	12	48	39	95	125	166	165	213
of which IBRD	-2	-1	-1	-1	8	35	19	11	12	14	20	55
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	9	22	35	85	104	83	321	246	322	866	1,224	1,364
Private Creditors	-124	95	280	86	96	21	947	603	981	1,032	874	940
Suppliers	-61	-15	-12	3	0	0	151	35	27	20	7	7
Financial Markets	-64	110	291	83	96	21	796	568	954	1,012	867	933
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	-115	133	329	188	212	152	1,308	944	1,428	2,064	2,263	2,517
IMF Credit	0	0	32	17	81	13	15	0	32	55	133	140
Net Short-Term Capital	-230	-49	321	-193	-18	-172	228	202	522	329	312	150
Total Incl. IMF & Net ST	-345	84	682	12	275	-7	1,550	1,146	1,982	2,448	2,708	2,807

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	1.42	1.16	0.84	0.68	0.88	2.18
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	1.42	1.16	0.84	0.68	0.88	2.18
Share of LT Debt Service						
1. IBRD as % of Total	0.83	0.89	1.15	3.03	1.77	3.66
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	0.83	0.89	1.15	3.03	1.77	3.66
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	53.73	46.60	123.40	151.60	178.20	147.70
2. IMF Credit/Exports	0.60	0.00	2.77	4.00	10.50	8.20
3. Short-Term Debt/Exports	9.37	9.90	45.20	24.20	24.60	8.80
4. LT+IMF+ST DOD/Exports	63.70	56.50	171.37	179.80	213.30	164.70
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	30.55	25.80	41.20	59.40	68.60	74.50
2. IMF Credit/GDP	0.34	0.00	0.90	1.60	4.00	4.10
3. Short-Term Debt/GDP	5.33	5.50	15.10	9.50	9.40	4.40
4. LT+IMF+ST DOD/GDP	36.22	31.30	57.20	70.50	82.00	83.00
Debt Service /Exports						
1. Public & Guaranteed LT	16.78	11.10	15.10	5.00	8.90	10.40
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	16.78	11.10	15.10	5.00	8.90	10.40
4. IMF Repurchases+Serv. Chgs.			0.10	0.20	0.50	0.50
5. Interest only on ST Debt		0.80	1.20	2.60	1.80	1.20
6. Total (LT+IMF+ST Int.)		11.90	16.40	7.80	11.20	12.10

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

The Gambia

The Republic of The Gambia comprises a narrow strip of land bordering the Gambia River and surrounded on three sides by the Republic of Senegal. The terrain is flat, and soils and rainfall are suitable for rainfed cultivation of cereals, groundnuts—the main export crop—and other agricultural products. Other natural resources include fisheries and sites with potential for tourism development. Nevertheless, the productive base is limited, and this is reflected in a low level of incomes. Per capita GNP in 1988 was US$210.

Agriculture contributed about 27 percent of the country's GDP in 1988, with production of groundnuts accounting for 6 percent. Industrial activity was 8 percent of GDP, mostly groundnut processing, fish freezing and drying, and leather tanning. Services constituted about 43 percent of GDP, the largest contributions arising from trade (15 percent), government (9 percent), and transport (8 percent). The direct contribution of tourism (hotels and restaurants) was 4 percent of GDP.

The Gambia's small size, undiversified agricultural economy, and trade openness make it vulnerable to weather conditions, the price of groundnuts and a few other products in world markets, and economic conditions in neighboring countries. The country imports about one-third of its food, all of its fuel and capital goods, and most other manufactured goods. Exports are highly concentrated, with groundnut products accounting for about 73 percent of the value of domestically produced exports. On the production side, these constraints require a gradual reduction of the predominant role of groundnuts in the economy through expansion of the productive base. There is potential for diversification of The Gambia's productive base within agriculture, mainly into horticultural and livestock products, and into resource-based manufacturing, fisheries and tourism. However, diversification of the economy to achieve higher growth and significant improvements in living standards is a long-term challenge, and will require the alleviation of human resource and environmental constraints.

The Gambia's low level of human resource development is reflected in an estimated 25 percent literacy rate, a 57 percent enrollment of school-age children in primary school, very low secondary-school enrollments, very high infant and child mortality rates, and a high incidence of chronic infectious diseases and seasonal malnutrition. In addition, the country's rate of population growth, at 3.4 percent per annum, is among the highest in Sub-Saharan Africa. The government is aware of the development implications of this growth, and recognizes that raising the long-term productive potential of the economy and the welfare of the population will depend crucially on improving efficiency and expanding resources, including carefully chosen investments, in education, health, and family planning services. With donor assistance, government is expanding and improving the quality of primary education and health services. Family planning services are being extended to health centers in The Gambia's interior. The government's objective is to increase the contraceptive prevalency rate, currently 15 percent, so that a measurable impact on the population growth rate can be achieved by the mid-1990s.

The deterioration of the environment is a significant 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. In addition to the threat to rural resources, there is also a potential threat to clean groundwater supply in the Greater Banjul area as a result of its proximity to the ocean, mounting demand for water, and a shallow water table. The government is aware that sustainable economic growth will require a comprehensive approach to arrest the deterioration of the environment. The central element in this approach is more careful use of existing resources, through improved resource management practices. To strengthen current efforts, government hosted in July 1988 a workshop on Environmental Protection and Resources Management. As a result of the recommendations of this workshop, the government will undertake a review of environmental issues and, on this basis, prepare and implement a long-term comprehensive action program for improvement of the environment.

Past Economic Policies and Performance

After a period of relatively good performance in the early 1970s, The Gambia's economic and financial situation deteriorated after the mid-1970s, as a result of expansionary financial policies, inappropriate exchange rate and other pricing policies, and adverse exogenous factors. The overall fiscal deficit on a cash basis (excluding grants) widened to about 14 percent of GDP in 1984/85[1]. At the same time, lax credit policies undermined the financial health of the government-owned Agricultural Development Bank and the Gambia Commercial and Development Bank (GCDB). As domestic demand pressures intensified and GDP declined in real terms, inflation accelerated to 22 percent (from 16 percent in 1983/84).

In parallel with the decline in the domestic economy, increasing imbalances began to emerge in the balance of payments. Reflecting the rapid growth of demand for imports by the fast-growing urban population, and the high import component of government recurrent expenditures and investments, imports increased dramatically. Export performance, however, was moderate and subject to influences beyond the government's control.

The cumulative balance of payments disequilibria led to the near exhaustion of gross official foreign exchange reserves by 1984/85. The government was unable to meet most of its external debt service obligations that year, and the central bank could not guarantee the convertibility of the Dalasi. A rapid erosion of confidence in the banking system ensued. The country's inability to obtain commercial credit for petroleum, rice, and other basic imports led to severe shortages. Reflecting these developments, a parallel market in foreign exchange developed, with a widening differential between official and parallel market exchange rates.

By mid-1985, the severity of the economic and financial situation persuaded the government that fundamental changes in economic policy were required. With assistance from the World Bank and the International Monetary Fund (IMF), government designed an Economic Recovery Program to reverse the economic and financial deterioration of the economy and initiate structural changes that would place The Gambia on a sustainable growth path in the medium term. As the cornerstone of the program, the government moved from a fixed peg to a floating exchange rate (interbank market) system in January 1986.

Economic Recovery Program (ERP). The specific aims of the ERP were to achieve an annual rate of growth of real GDP of 3.3 percent and a reduction in the rate of inflation on an end-period basis from 70 percent in 1985/86 (when it peaked reflecting more than 120 percent depreciation of the Dalasi following the float) to 10 percent by 1988/89. In the external sector, the ERP's main objectives were to build up official foreign exchange reserves, reduce the large stock of external payments arrears, and normalize relations with creditors through rescheduling agreements and the timely servicing of nonreschedulable obligations. Because of a drop in world groundnut prices during 1986 and the need to increase imports for investment rehabilitation and maintenance, the ERP envisaged an initial widening of the current account deficit (excluding official transfers) from 21 percent of GDP in 1985/86 to 33 percent in 1986/87; thereafter, the current account deficit was expected to decline progressively to 21 percent of GDP by 1988/89.

To achieve the above objectives, the ERP stressed the role of the private sector and a move toward a greater play of market forces throughout the economy, while focusing the public sector more narrowly on activities in support of private sector development. The introduction of a flexible exchange rate system was followed by other substantial changes in economic policy. Fiscal and monetary policies were tightened. Interest rates, agricultural producer prices (with the important exception of groundnuts), and all prices of consumer items were allowed to be determined by market forces. Public sector activities — whether in the form of public investment or public enterprise — were subjected to rigorous criteria of economic efficiency, and priority was given to the development of human resources.

Performance under the ERP. The Gambia's economic performance has improved continuously since the launching of the ERP. The floating exchange rate system has functioned smoothly; budget deficits have been kept within the targets established under the program; restraint in credit policy has been maintained, and real interest rates have become positive; and debt rescheduling agreements were concluded with Paris Club creditors in 1986 and with London Club creditors in 1988. The rate of inflation, on an end-period basis, has dropped from 70 percent in 1985/86 to about 8 percent in 1988/89 (lower than originally envisaged under the ERP). The central bank gross foreign exchange reserves have increased from less than one

1 Fiscal year ending June 30

week of imports in 1985/86 to about 1.8 months of imports in 1988/89, and the reduction in external payments arrears has exceeded the amounts originally programmed. Improvements in the policy environment coupled with favorable weather led to an average annual increase in real GDP of about 5 percent in the years 1986/87-1988/89.

Substantial progress has been made in the implementation of structural reforms. The government revised the income tax, enacted a sales tax, and improved tax administration. These measures have contributed to broadening the tax base, rationalizing the tax system, and improving revenue collection. Regarding public expenditures, the government retrenched about 24 percent of its work force, and implemented pay and grading reform programs with the aim of improving efficiency in government operations. Savings from personnel expenditure were used for increased expenditure on materials and supplies, particularly for the health and education sectors.

The government also reviewed the public investment program and shifted its focus from new projects to rehabilitation and maintenance of existing assets. Moreover, there is now no new public investment in productive sectors that might be of potential interest to the private sector. Public investments are reserved for infrastructure and support services to facilitate private sector development.

Regarding the public enterprise sector, the government's strategy is to reduce its scope through divestiture while improving the performance of enterprises remaining in its portfolio through performance contracts. These contracts aim at turning these enterprises into viable commercial ventures by giving them managerial autonomy in operational matters, including tariff setting. So far, the government has succeeded in selling its holdings in four companies and in leasing a hotel, and has offered for sale its holdings in five other enterprises. Three major parastatals are now in the second year of their performance contracts with government. Initial restructuring of the financial sector was also implemented. The Agricultural Development Bank was liquidated. Credit to the agricultural sector continued to be provided through the GCDB, private commercial banks, and the Gambia Cooperative Union (GCU). The government also undertook an interim financial restructuring of the GCDB. It followed this with a diagnostic study of the problems that hindered GCDB's performance. On the basis of the recommendations of this study, the government prepared and started the implementation of a medium-term comprehensive action program to place the GCDB on a sound commercial footing.

In the agricultural sector, the government privatized rice imports and decontrolled the consumer price of rice; prepared and started the implementation of a time-bound action plan for input credit recovery of the GCU; and restructured the Ministry of Agriculture, so as to focus the Ministry's role on more efficient provision of extension and support services. In order to achieve an efficient pattern of production in the groundnut subsector and eliminate unaffordable subsidies, in 1987/88-1988/89 the government lowered the groundnut producer price to bring it into line with world market prices, adjusted for processing, transportation, and marketing costs. As of the 1989/90 trade season, the government ceased to set the producer price and allowed the Gambia Produce and Marketing Board (GPMB) to set its own purchase price of groundnuts in line with world market prices at time of procurement and GPMB's own cost structure. This resulted in increased competition in domestic marketing, and the transfer to farmers of gains in the world market price. Most importantly, in February 1990, the government eliminated GPMB's monopoly in export processing and marketing. It is expected that the now fully competitive environment in the groundnut subsector will promote efficiency and cost reductions and the payment to farmers of the highest possible price.

Medium-Term Growth Prospects and Policies

In 1989/90 and beyond, the growth effort is expected to be broadly based and to result from government's policy to encourage private sector activity and improve the effectiveness of public investment. This growth would be sufficient to allow further modest increases in real per capita income. The rate of inflation is expected to fall further. The external current account deficit (excluding official transfers) is projected to decline from 18.2 percent of GDP in 1988/89. As long as future financing is on suitably concessional terms, this would be consistent with declines in the external debt service ratio (including payments of arrears) from 49.1 percent in 1988/89, and the debt/GDP ratio from 132.2 percent in 1988/89. Moreover, external payments arrears will be eliminated by end-June 1990, and gross official foreign exchange reserves would increase.

Attainment of the above targets is predicated on government's ability to promote further development of the private sector through an economically efficient policy environment while restructuring the public sector to bring its activities further into line with the resources of the economy and its comparative advantage in providing key public services. The government's major policy tool to encourage expansion of economic activity by the private sector, diversification of the economy, export growth, and economic efficiency will remain the liberalized exchange rate system. Key supporting policies include a liberal trade policy; and tight credit and flexible interest rate policies. While retaining the major policies adopted since the launching of the ERP, the program for 1989/90-1991/92 focuses most specifically on measures to: (i) increase the efficiency of government recurrent expenditures and public investments, and reduce further the fiscal deficit; (ii) strengthen the performance of the agricultural sector, including reforms in groundnut processing and marketing policies and institutions; and (iii) improve public sector management, including civil service reforms and a comprehensive reform of the GCDB, and steps to improve the performance and the role of public enterprises.

External Financing of Adjustment

In 1985/86-1988/89 implementation of the ERP was supported by several donors. The total financing package was US$39.5 million, of which US$18 million was from the Special Facility for Africa and IDA, and the remainder was cofinanced by the United Kingdom, the Netherlands, the African Development Bank, and the Saudi Fund. Support was also provided by the IMF.

Notwithstanding the progress made over the past four years, the continuation of the government's efforts to build a stronger base for long-term growth combined with sustainable balance of payments and public finance positions will require further substantial external financial support. It is anticipated that bilateral and multilateral donors will continue to support The Gambia's adjustment efforts.

GAMBIA, THE

Mid-1988 Population (thousands)	822
1988 Per Capita GNP in US$:	220

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988p*	*1989e*	*1965-73*	*1973-80*	*1980-88*	*1988p*	*1989e*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	4.5	4.8	3.7	8.0	5.4
Net Indirect Taxes	7.6	9.6	10.3	16.8	22.0	22.0	..	..	..	..	..
Agriculture	32.3	32.2	27.3	28.9	26.6	26.6	4.5	-1.7	5.0	0.3	5.8
Industry	8.2	8.2	14.6	8.8	8.0	8.0	3.8	6.4	1.9	-3.5	5.6
(of which Manufacturing)	2.9	2.9	6.5	5.2	4.5	4.5	4.4	..	..	-7.8	5.0
Services	51.9	50.0	47.8	45.4	43.4	43.4	4.6	5.1	2.9	2.6	4.3
Resource Balance	-4.9	-6.6	-22.3	-11.5	-10.8	-9.4	..	..	..	..	..
Exports of GNFS	42.7	43.7	58.9	62.9	67.9	64.8	1.7	4.5	7.3	10.5	4.5
Imports of GNFS	47.6	50.3	81.2	74.4	78.7	74.2	1.2	11.9	2.4	7.7	3.1
Total Expenditures	104.9	106.6	122.3	111.5	110.8	109.4	3.7	9.3	1.2	6.4	3.5
Total Consumption	97.1	98.8	97.3	93.0	92.9	93.1	3.9	7.1	0.8	6.9	3.5
Private Consumption	78.2	84.0	75.1	73.0	76.0	74.5	..	..	..	..	..
General Government	18.9	14.8	22.3	20.0	16.9	18.6	..	..	..	..	..
Gross Domestic Investment	7.8	7.9	25.0	18.5	17.9	16.2	-0.1	36.1	3.5	3.4	3.5
Fixed Investment	..	..	..	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	2.9	1.2	2.7	7.0	7.1	6.8	..	..	..	..	..
Net Factor Income	-4.7	-2.7	-0.9	-14.6	-12.0	-10.5	..	..	..	..	..
Net Current Transfers	0.0	0.5	1.5	9.7	7.4	3.6	..	..	..	..	..
Gross National Saving	-1.8	-1.0	3.3	2.1	2.5	0.0	..	..	..	..	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988p*	*1989e*					
Gross Domestic Product	442	676	933	1,251	1,351	1,424	4.5	4.8	3.7	8.0	4.4
Capacity to Import	322	413	654	787	865	903	1.4	4.7	6.3	9.9	4.4
Terms of Trade Adjustment	84	42	47	0	-5	-6	..	..	..	..	..
Gross Domestic Income	526	718	980	1,251	1,346	1,418	4.0	4.9	3.1	7.6	4.3
Gross National Product	396	639	917	1,069	1,186	1,250	4.7	4.9	1.2	11.0	4.4
Gross National Income	480	681	964	1,069	1,181	1,244	4.2	5.0	0.7	10.5	4.3

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	27.5	51.7	81.0	100.0	111.7	128.5	3.2	12.7	21.1	11.7	15.0
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	43.9	74.8	91.4	100.0	110.3	120.3	3.0	11.9	13.9	10.3	9.1
Implicit Expenditures Defl.	40.8	69.7	92.9	100.0	111.2	120.9	3.6	11.5	14.8	11.2	8.7

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.8	3.4	3.3
Labor Force	..	..	..
Gross Natl. Income p.c.	1.4	1.5	-2.5
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.3	2.5	0.7
Marginal Savings Rates:			
Gross National Saving	1.0	17.8	0.6
Gross Domestic Saving	-3.1	8.0	20.2
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	87.6	85.8	84.0	..
Industry	5.2	6.0	6.7	..
Services	7.1	8.2	9.2	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.GROUNDNUT	..	..	..	..	..	..	..	10	12	18	16	..
X.FOOD.FISH	..	..	..	..	..	..	..	3	1	2	3	..
X.OAGRI.COTTON	..	..	..	..	..	..	..	1	1	1	1	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	56	57	57	77	..
Total Exports FOB	..	..	..	..	..	..	..	70	71	78	97	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	36	35	34	44	..
Fuel and energy	..	..	..	..	..	..	..	12	7	8	9	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports CIF	..	..	..	..	..	..	..	101	101	105	123	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..
H. Balance of Payments						
Exports of Goods & NFS	100	94	107	114	136	133
Merchandise (FOB)	82	70	71	78	97	96
Non-Factor Services	18	24	35	37	39	37
Imports of Goods & NFS	155	112	131	135	157	147
Merchandise (FOB)	118	87	101	105	123	113
Non-Factor Services	37	25	30	31	34	34
Resource Balance	-55	-17	-24	-21	-22	-14
Net Factor Income	-10	-26	-31	-26	-23	-24
(LT interest + London Club)	2	6	4	7	9	9
Net Current Transfers	3	6	8	9	8	8
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-61	-38	-48	-38	-37	-30
Net Official Transfers	30	37	41	47	43	44
Curr. A/C Bal. after Off. Transf.	-31	-1	-6	9	6	14
Long-Term Capital Inflow	13	-3	43	12	4	20
Direct Investment	2	2	6	3	3	3
Net LT Loans	11	-5	36	9	1	17
Other LT Inflow (Net)	0	0	0	0	0	0
Total Other Items (net)	13	-10	-3	-3	-2	0
Net Short Term Capital	26	0	0	0	0	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-13	-10	-3	-3	-2	0
Changes in Net Reserves	5	14	-33	-18	-7	-34
Net Credit from the IMF	9	-11	9	4	5	5
Oth.Reserve Chges(-increase)	-4	24	-46	-24	-11	-38
As Share of GDP (%):						
Resource Balance	-27.5	-14.7	-16.2	-11.7	-11.3	-7.1
LT Interest Payments	1.1	5.0	2.8	3.8	4.5	4.3
Curr.Acc.Bal.before off.transfers	-30.9	-31.8	-31.7	-21.4	-19.3	-15.1
Memorandum Items:						
Reserves excl. Gold (mil. US$)	6	2	14	26	29	..
Reserves incl. Gold (mil. US$)	6	2	14	26	29	0
Official X-Rate(Dal/US$;end-FY)	2.06	7.25	7.14	7.02	7.81	8.54
Index Real Eff. X-R Base 1980	100.00	98.23	70.62	74.52	80.60	77.54
GDP (millions of current US$)	199	118	151	178	191	199

(Fiscal Year Beginning July 1)			*Share of GDP (%)*						*Growth Rates*		
	1980	*1985*	*1986*	*1987*	*1988e*	*1989*	*1980-84*	*1986*	*1987*	*1988e*	*1989*
Current Receipts	19.5	24.4	29.5	26.7	29.2	28.8	..	51.9	4.9	30.4	12.4
Current Expend.& net lending 1/	21.7	22.5	35.3	34.4	23.9	29.7	..	65.9	37.7	-18.2	41.4
Current Budget Balance	-2.2	1.9	-5.8	-7.7	5.3	-0.9	..	..	..	..	..
Capital Receipts				0.3	0.3		..	..	..	..	..
Capital Expenditures	17.1	10.6	14.9	14.1	10.7	10.7	..	76.7	9.4	-9.2	13.8
Adjustments to cash basis		-4.1	-1.3	-0.4	-1.7	-0.2	..	..	..	..	..
Overall Balance (cash basis)	-19.3	-12.8	-22.0	-21.9	-6.8	-11.8	..	..	..	..	..
Official Capital Grants	5.9	6.9	14.9	12.5	9.1	8.9	..	172.8	-2.7	-13.5	11.4
External Borrowing (net)	12.2	0.8	22.4	5.9	1.0	7.6	..	..	..	..	..
Domestic Non-Bank Financing	-0.6	2.7		1.3	1.9	-0.2	..	..	..	..	..
Domestic Bank Financing (net)	1.8	2.4	-15.3	2.2	-5.2	-4.6	..	..	..	..	..
Memo Item:	19.3										

J. External Capital Flows, Debt and Debt Burden Ratios 2/			*Net Disbursements (US$ millions) 2/*						*Debt Outstanding & Disbursed (US$ millions) 2/*			
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Public & Publicly Guar. LT	51	13	32	29	7	18	97	177	212	266	271	296
Official Creditors	30	13	32	31	8	20	73	139	193	249	245	279
Multilateral	18	10	26	28	9	18	41	85	117	159	161	174
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	5	4	14	14	5	15	16	35	51	69	72	87
Bilateral	11	3	6	3	-1	2	33	53	76	90	84	105
Private Creditors	21	0	0	-2	-1	-2	24	38	19	17	26	17
Suppliers	7	0	0	0	0	0	7	16	1	1	1	1
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	51	13	32	29	7	18	97	177	212	266	271	296
IMF Credit	4	-4	-7	3	-1	4	16	33	30	38	35	38
Net Short-Term Capital	11	1	38	-46	-9	44	23	36	29	24	22	23
Total incl. IMF & Net ST	66	11	63	-14	-3	66	137	246	270	327	327	357

Bank and IDA Ratios	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	16.34	19.93	23.81	26.10	26.56	29.28
3. IBRD+IDA as % of Total	16.34	19.93	23.81	26.10	26.56	29.28
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	14.29	50.00	6.10	4.44	6.92	5.44
3. IBRD+IDA as % of Total	14.29	50.00	6.10	4.44	6.92	5.44
DOD-to-Net Exports G&S Ratios (%) 3/						
1. Long-Term Debt/Net Exports	..	257.90	257.50	287.10	270.80	310.40
2. IMF Credit/Net Exports	..	48.20	35.80	40.90	33.30	42.80
3. Short-Term Debt/Net Exports	..	52.70	34.60	25.40	0.00	0.00
4. LT+IMF+ST DOD/Net Exports	..	358.90	327.90	353.40	304.10	353.20
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	41.68	149.10	140.50	149.00	144.10	140.10
2. IMF Credit/GDP	6.94	27.90	19.50	21.20	17.70	19.30
3. Short-Term Debt/GDP	9.98	30.50	18.90	13.20	0.00	0.00
4. LT+IMF+ST DOD/GDP	58.60	207.40	179.00	183.40	161.80	159.40
Debt Service /Net Exports G&S (%) 3/						
1. Public & Guaranteed LT	..	1.50	10.00	14.60	10.50	21.30
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	..	1.50	10.00	14.60	10.50	21.30
4. IMF Repurchases+Serv. Chgs.	..	7.60	25.60	11.20	5.40	6.30
5. Interest only on ST Debt	..	4.20	2.20	1.70	1.20	2.20
6. Total (LT+IMF+ST Int.)	..	13.30	37.80	27.60	17.20	29.80

Notes:

2/ Data from DRS are on calendar year basis. Therefore, they are not strictly comparable with balance of payments data, which are based on The Gambia's fiscal year (July 1 - June 30).

3/ Ratios to "Net exports" with latter defined to include merchandise exports and receipts from non-factor services, factor services and workers remittances, minus imports used for re-exports. Debt service excludes payments of arrears.

e = estimated
p = preliminary

Ghana

Ghana once enjoyed a relatively high standard of living compared with most other West African nations. But poor economic policies, drought, and increases in oil prices led to a decline in GDP in the 1970s and early 1980s. As a result, Ghana's real per capita income fell significantly during this period. Since the inception of the Economic Recovery Program in 1983, however, GDP growth has averaged about 6 percent a year. This improved economic performance has helped reverse the decline in living standards, but the earlier period of economic stagnation has left its mark. Per capita income remains low at US$400 (1988). An estimated half of the population lives in absolute poverty. In addition, the country's basic needs indicators, once the best in Africa, are now no better than those of other Sub-Saharan African countries at comparable per capita incomes. Modern health services and safe water are accessible to only about one half of the people. And although the education system is well established and primary schooling has been free since 1962, the enrollment rate in primary schools is below 80 percent. Half of the adult men and over two-thirds of the adult women have received no formal education.

The economy was poorly managed throughout the 1970s. Large budget deficits, necessitated partly to support a sprawling, inefficient public sector, led to a marked acceleration in domestic inflation. Given the reluctance to move the nominal exchange rate, the real rate appreciated significantly, shifting relative incentives away from exports (including cocoa) into import trade. This, and the growing disenchantment on the part of aid donors with Ghana's performance, caused a continuing foreign exchange crisis. The erosion of the tax base due to declining exports and imports, and the related drop in economic activity, forced cutbacks in government operation and maintenance and capital expenditures. As a result, there was a marked deterioration in what was once a fairly well-developed economic and social infrastructure.

To add to its difficulties, in the early 1980s Ghana was subjected to a prolonged and severe drought which created the worst food shortages since Independence. In addition, the external terms of trade deteriorated sharply following the increase in petroleum prices, and a softening in prices of major exports (cocoa and gold). The sudden return of over one million Ghanaians from Nigeria severely strained the food and employment situation. The cumulative effect of the downward economic spiral is reflected in the trends in key economic indicators between 1970 and 1982: per capita real income declined by 30 percent; import volumes dropped by a third; real export earnings fell 52 percent; domestic savings and investment declined from 12 percent and 14 percent of GDP, respectively, in 1970 to almost insignificant levels; and inflation ran at 44 percent per annum over the period.

The Economic Recovery Program, 1984-86

The Provisional National Defence Council (PNDC), headed by Flight Lieutenant Rawlings, introduced an Economic Recovery Program (ERP) in 1983. The major objectives of the ERP were to: shift relative prices in favor of production, particularly for exports and efficient import substitution; restore fiscal and monetary discipline; initiate the rehabilitation of the country's productive base and economic and social infrastructure; and encourage private investment. The most important measure was the movement toward a more realistic exchange rate with a series of devaluations of the cedi, from C2.75 = US$1.00 in 1983 to C90 = US$1.00 in January 1986. In September 1986, the government established a second-tier foreign exchange auction market covering almost two-thirds of external transactions.

Administered prices were adjusted as a result of changes in the exchange rate. Price and distribution controls were dismantled for a wide range of products. Interest rates were increased in stages to the point that they became positive in real terms in 1985. In the area of fiscal policy, the government concentrated on eliminating subsidies, mobilizing resources through improved tax collection and selective increases in consumption taxes and charges, and providing for maintenance and capital expenditures. Public sector salaries and wages and statutory minimum wages were raised to offset partially the drastic erosion in real incomes. In 1986, the government granted a wage increase which substantially reversed the severe decompression in salary level differentials between the highest and lowest paid workers in the civil service.

The government made significant improvements in its public expenditure policy. The highest priorities with respect to recurrent expenditures were to restore the viability and efficiency of public administration and to expand its support to health and education. Also, allocations were increased for operation and maintenance. Beginning in 1986, the government prepared a rolling three-year public investment program, which made provisions for the rehabilitation of key sectors — cocoa, timber, gold mining, and transport infrastructure.

The Structural Adjustment Program

The ERP was followed by the structural adjustment program, the first phase of which covered the period 1987-88. A second phase is now being implemented and is scheduled to be completed by end-1990. The program aims to: (i) maintain an incentive framework that stimulates growth, encourages savings and investment, and strengthens the balance of payments; and (ii) improve resource use, particularly in the public sector, while ensuring fiscal and monetary stability. Specifically, the program comprises policy and institutional reforms in the areas of trade and exchange rate management, the cocoa sector, public resource management, state-owned enterprise reforms, public sector management, financial sector policies, and private sector development.

Trade and Exchange Rate Reforms. Trade and exchange rate reforms remain the centerpiece of Ghana's structural adjustment program. In February 1987, the official and auction exchange rates were unified at C150 = US$1.00. Since then, the auction has proceeded smoothly. Access to the auction market was expanded and by February 1988, all goods had become eligible for the auction (except for a few on the negative list). All bona fide requests for transfers of profits and dividends became eligible for funding through the auction in February 1989. Also, in February 1988, the government permitted banks and authorized dealers to establish foreign exchange bureaus and buy and sell foreign exchange at freely determined prices. Today, over 140 licensed bureaus operate in Ghana, with total recorded transactions amounting to some US$11 million per month. The government unified the foreign exchange markets on April 27, 1990. Under the new system, the exchange rate is freely determined in the context of an extended interbank system, supported by weekly wholesale foreign exchange auctions conducted by the Bank of Ghana. The wholesale auction rate now stands at C325 = US$1.00 (May 25, 1990). The spread between the auction and bureau rates, which has fluctuated, reaching a peak of about 50 percent in January/February 1989, has declined to about 9 percent.

Ghana's import tariff levels are moderate by developing country standards, with most standard tariffs in the 20-25 percent range. In addition, the government imposes a 10 percent special import tax on a range of products and a 40 percent special tax on three product groups—beer, spirits, and tobacco products. The government revised the structure of indirect taxes in the 1988 budget which reduced the variations in effective protection due to differences in import and domestic sales taxes. In January 1989, the import licensing system was abolished; importers are now required to submit only an import declaration form.

Cocoa Sector Policies. The cocoa sector is central to Ghana's economy, both for its contribution to export performance and tax revenues, and for its generation of employment and incomes in rural areas. The principal policy objectives in the sector are to increase production by improving producer incentives consistent with world market trends and government budgetary requirements, and to trim the operational expenses of the Ghana Cocoa Board (COCOBOD). Significant improvements have been made in both areas. Starting with a 65 percent increase in the cocoa producer price to C140,000/metric ton for the 1987/88 crop year (plus a bonus of C10,000/metric ton), raising the farmer's share to 36 percent of the f.o.b. price, by the 1989/90 crop year, the price was increased to C174,000/metric ton, representing a projected 50 percent of the f.o.b. price. In the event that actual export prices in local currency terms are higher than anticipated, the additional receipts are to be shared between the farmer (60 percent) and the government (40 percent). In addition, COCOBOD has trimmed its operational expenses by retrenching about 17,000 workers between 1987-89. Toward its objective of withdrawing from direct productive activities, it has also ceased operations on 52 of its 92 plantations and divested part of its holdings in the Abuakwa insecticide formulation plant.

Public Resource Management. The structural adjustment program includes improvements in three areas of public resource management: increased domestic resource mobilization; restructured recurrent expenditures; and the formulation of a rolling three-year investment program. On resource mobilization, the government has introduced several tax reforms aimed at promoting equity and efficiency. With respect to personal income taxes, the government has reduced the income tax burden on lower-paid workers through increases in personal allowances, widened tax brackets, converted the 30 percent withholding tax on dividends to a final tax, and expanded the base of the personal income tax to include some cash and in-kind benefits. In the area of company taxation, the corporate tax rate has been reduced to 45 percent for manufacturing, construction, farming and export sectors, and 50 percent for all other sectors. On indirect taxes, the government has reformed the structure of sales taxes, increased sales taxes and import duties on cars, and in February 1990, introduced a new "super sales tax" ranging from 50 percent to 500 percent on imports of luxury consumer goods and luxury cars. To improve tax administration, the government is computerizing its management information systems, intends to introduce a unique taxpayer identification number system, and has launched a pilot effort at replacing the "ring" system of sales tax collection with a "credit" system. And finally, to increase public confidence in the fairness of the tax system, a Special Tax Tribunal for prosecuting tax offenders and hearing appeals has been established.

Public expenditures have been geared toward meeting the requirements of structural adjustment, consistent with the need to reduce inflation, as well as with the availability of domestic and international resources. The government has raised the salaries of civil servants, particularly for those at senior levels, and allocated increased amounts for operation and maintenance outlays, especially in the priority areas of health, education and agriculture. Public investment has grown from negligible levels to 8.3 percent of GDP in 1989, and has emphasized the rehabilitation of the country's economic and social infrastructure. To improve investment planning, sector ministries have strengthened their planning units and the Ministry of Finance has established a project selection committee to ensure that investments meet established criteria and support sector strategies.

State-Owned Enterprise Reforms. The reforms of state-owned enterprises (SOEs) under the structural adjustment program aim to create an appropriate policy framework for the sector, initiate a divestiture program, and strengthen management, particularly in priority SOEs. Despite initial start-up difficulties, especially in the divestiture program, the government has made some progress in achieving these objectives. Guidelines governing budgetary transfers to state enterprises were prepared and were implemented in the 1989 budget. Corporate plans and performance agreements for 14 major enterprises that will remain in the government's portfolio have been updated for 1990. With respect to the divestiture program, the government advertised the sale of 32 State-owned enterprises in 1988. Of these, 15 have been liquidated and preparatory work for the sale of another 10 is fairly well advanced. In addition, government's equity in four joint ventures was sold in May 1990, and a fifth joint venture was liquidated.

Public Sector Management. The government's aim of improving the efficiency of the civil service is being approached through reductions in staffing as well as increases in salaries for top-level civil servants. Some 46,000 civil servants have been removed from the government's payroll between 1987 and the first quarter of 1990. In addition, the government has completed a review of the salary policy of the civil service. The government intends to increase civil service pay relativities, balancing budgetary constraints with the need to raise the salaries of senior civil servants. In line with this policy, the government increased pay relativities from 5.2:1 in 1987 to 9.4:1 in 1990. Furthermore, it has initiated work to install an integrated payroll and personnel management system by end-1991.

Financial Sector Policies. As part of the structural adjustment program, the government has introduced a wide-ranging set of financial sector reforms. To further improve the allocative efficiency of the banking system, the government abolished interest rate controls and sectoral credit ceilings (except for a minimum lending requirement to the agricultural sector). The legal framework governing banking activities has been revised with the promulgation of a new Banking Law in 1989, the introduction of uniform accounting and auditing standards for all banks, and improved reporting procedures to the Bank of Ghana. Substantial efforts are being made to strengthen the supervisory functions of the Bank of Ghana over the banking system, both off-site and on-site. To enhance the soundness of the banking system, the government has initiated a program to restructure the finances and management of distressed banks. Finally, the government has also begun work to put in place a new system of managing monetary aggregates indirectly through the introduction of new market-based financial instruments and open-market operations by the Bank of Ghana. In this context, the Bank of Ghana sold financial instruments worth C8 billion in the first quarter of 1990 to absorb liquidity from the bank and non-bank sectors of the economy.

Private Sector Development. Several components of the structural adjustment program are aimed at building an economic environment attractive to private investors, for example, exchange rate policies, financial sector policies, and a public expenditure program focussed principally on infrastructure rehabilitation and the delivery of public services. To complement these, the government has implemented several measures to support private sector development. It has released blocked private capital and dividends as part of its broader program to clear external arrears. It is reexamining the structure of taxes on returns from private savings and investment. The government is also introducing measures to streamline the procedures of the Ghana Investment Center and strengthen its promotional arm. Finally, the government held a conference to promote private investment in Ghana in 1988, followed by a second conference sponsored by MIGA in early 1990 which led to several investment decisions by investors. Further reviews of the regulatory regime are under consideration.

The Economic Consequences of the Reforms

Ghana is now well into its seventh year since the introduction of the ERP. During this period, the economy has maintained an average growth rate of about 6 percent a year. In 1989, growth was fuelled by both a rebound in cocoa output, and increased production in the non-cocoa agricultural sector which benefitted from good rainfall, improved infrastructure and greater availability of inputs. Other sectors of the economy also continued to expand, especially mining, transport, construction, and manufacturing. On the other hand, growth in retail and wholesale trade continued to slow as further depreciation of the real exchange rate affected the production of non-tradable services.

The Budget. The government's fiscal position has improved markedly. Revenues as a share of GDP rose from 5 percent in 1983 to about 14.4 percent in 1989. The gain primarily reflected the effect of exchange rate depreciation on taxes on international transactions, higher excise taxes, increased license and registration fees, and the introduction of petroleum taxation. Recurrent expenditures have risen from 7 percent of GDP in 1983 to 11 percent of GDP in 1989. Capital expenditures have grown from negligible levels to 8.3 percent of GDP (including external project assistance) in 1989. The overall budget deficit, which accounted for 3.1 percent of GDP in 1984, widened to 5.7 percent in 1989, but was financed entirely by foreign grants and concessional loans. The increase in public savings and higher domestic non-bank borrowing enabled the government to transfer resources to the domestic banking system equivalent to about 1 percent of GDP in 1987, 1.1 percent in 1988, and 1.6 percent in 1989.

Money and Credit. The broad money supply grew by 27 percent in 1989, down from 54 percent in 1987, and 43 percent in 1988. Nevertheless, this growth was slightly higher than programmed as a result of unanticipated increases in net foreign assets and slower than expected declines in the velocity of circulation. In contrast to the increase in net foreign assets, the net domestic assets of the banking system actually fell in 1989 by 11.8 percent, reflecting the effect on bank balance sheets of the replacement of non-performing bank loans to state enterprises with Bank of Ghana promissory notes.

Prices. Improved food supplies were a major reason for the deceleration in inflation in the first years of the ERP, from 122 percent in 1983 to 10 percent in 1985. [1] In 1986, however, inflation climbed back to 25 percent, partially because food prices resumed a more normal pattern. Nevertheless, this was still moderate given the large devaluation of the exchange rate that occurred in January and September. In 1987, however, the average consumer price index rose by 40 percent, driven upwards by a sharp increase in the volume of broad money. While inflation has moderated somewhat to 31.4 percent in 1988 and 25.2 percent in 1989, it remains a concern. Data for the second semester of 1989 show that it is once again on the rise and has prompted aggressive fiscal and monetary policies by the government in 1990.

Balance of Payments. The evolution of Ghana's balance of payments since 1983 has been shaped by three principal forces: the international price of cocoa; the growth of imports; and the response of the international aid community. Despite an increase in cocoa production from 160,000 tons in 1984 to 305,000 tons in 1989, export receipts from cocoa only grew from US$382 million to US$392 million, reflecting a slide in the cocoa export price from US$2,351 per ton in 1984 to US$1,381 per ton in 1989. Non-cocoa exports on the other hand more than doubled over the period on the strength of gold, timber, and electricity, and non-traditional exports grew eightfold albeit from a very small base. This growth, however, was insufficient to stem a substantial worsening of the trade balance. Imports grew more rapidly than exports, especially in the early years of the program when there was a dire need for intermediate and capital goods imports to resuscitate the economy. This momentum has since dissipated; in 1988 and 1989, the overall import elasticity was significantly below one, the consequence of tighter aggregate demand management and a more realistic

1. Inflation rates are calculated on the basis of the average consumer price index for each year.

exchange rate. To some extent, the deteriorating trade balance was compensated for by a sharp rise in net private transfers. But the net result was a worsening current account deficit; as a share of GDP it grew from 2.8 percent in 1984 to 7 percent in 1989.

The growth of the capital account surplus has outstripped the deterioration of the current account deficit, with the result that Ghana's overall balance of payments has been in surplus since 1987. The surplus in 1989 estimated at US$105.6 million exceeded the program target comfortably. These surpluses have been used to meet the government's repurchase obligations with the IMF, virtually eliminate its stock of external arrears, and add modestly to its foreign exchange reserves. The large capital account surpluses were made possible by substantial increases in official grants and net disbursements of official concessional assistance. While overall external debt has increased from US$1.9 billion in 1984 to US$3.5 billion in 1989,[2] the share of non-concessional debt, especially medium-term oil financing, has declined significantly. This is reflected in the debt service ratio (excluding IMF and arrears) which shows a steady decline from 47 percent in 1985 to 28 percent in 1989. However, inclusive of IMF repurchases and arrears payments, the debt service ratio remained above 60 percent for the duration of the program period (except in 1986), although with the introduction of the IMF's ESAF, and the virtual elimination of external arrears, even this ratio is expected to decline rapidly over the next three years.

Social Impact. The prolonged decline in the economy in the 1970s and early 1980s caused a substantial reduction in per capita real incomes and food production. The majority of the population experienced a sharp drop in its living standards. But the poorer groups were among those least able to protect their real incomes. The reforms introduced by the government since 1983 may have gone some way toward reversing this trend. The increase in per capita incomes and consumption between 1984 and 1988 stands in sharp contrast to the experience of the previous decade. The improvements in producer incentives — particularly for small-scale cocoa farmers — and the shift in resources from urban to rural areas has enhanced economic opportunities and increased incomes in several sectors and regions of the economy. Higher public expenditures in the social sectors have increased the availability of health and education services, especially to the poor. The expansion of production in virtually every sector of the economy, higher levels of public and private investment, and the more realistic pricing of capital and foreign exchange are leading to gains in employment and contributing to higher real wages and labor productivity.

The adjustment program has hit hardest those — not generally the poorest — who were benefitting from the rents created by a restrictive and protective economic regime. But some of the poor, particularly those in urban areas, have also been affected adversely in the short term. In addition, real wages of unskilled labor could decline in the short run as the civil service continues to retrench staff and the liberalization of international trade leads to temporary job losses in inefficient public and private enterprises.

Concerned about the needs of the poor, including those who are not yet benefitting from the program and those who are bearing a disproportionate share of the costs of adjustment in the short term, the government is implementing a program of action to mitigate the social costs of adjustment (PAMSCAD). This program seeks to improve the delivery of basic services to the poor, raise their productivity, and enhance their opportunities for gainful employment. Financial indications at a 1988 donors' meeting for PAMSCAD totalled US$85 million, covering the cost of the program. The implementation of the program is proceeding at a slower pace than planned, in part because donor commitments took longer to be finalized than anticipated, and in part due to institutional bottlenecks.

Medium-Term Policies and Prospects

Despite the substantial progress made since 1983, Ghana still faces major structural and financial problems. Although the underlying external payments position has improved, exports remain well below historic levels and imports are constrained; and the external debt-service burden is heavy. In addition, the international price of Ghana's major export, cocoa, has fallen precipitously and shows little sign of recovery. Agricultural production is well below potential, and many industrial enterprises need to improve or restructure their operations to be competitive under the liberalized trade system. The present weakness of the financial system limits effective support of the productive sectors and constrains financial savings. Bottlenecks in infrastructure remain; in the roads sector in particular, much more rehabilitation is needed. Civil servants are underpaid, especially at the higher levels, and there is overemployment at the lower levels of the administration. And weaknesses in management and implementation capacity are serious obstacles to the full success of economic and financial policies.

2. This includes IMF and private non-guaranteed debt.

The government prepared its latest rolling medium-term policy framework in September 1989 which aims at establishing a firm foundation for a buoyant, self-reliant, and increasingly integrated economy, with a viable external payments position over the medium term. Specifically, the program seeks to: achieve an average annual rate of growth of real GDP of at least 5 percent; reduce the average annual rate of inflation to 5 percent per year by 1992; and maintain external balance consistent with the liquidation of external payments arrears and the maintenance of a strong foreign reserve position. To achieve these goals, the policy framework includes: (a) further improvements in incentives for efficient production through continued reforms in exchange and trade policies; (b) increased public investment in the rehabilitation of social and economic infrastructure; (c) measures to increase public savings and improve the allocation of public expenditures; (d) acceleration of the state enterprise sector reform program; (e) improvements in public sector management, especially measures to improve the efficiency of the civil service; and (f) financial sector reforms to foster financial savings, improve allocative efficiency, strengthen banking institutions, and develop money and capital markets.

The GDP growth target will require a strong performance from both agriculture and industry. In the agricultural sector, cocoa production is expected to continue its recovery, albeit more modestly than in the past, as a result of the unfavorable international price situation. Assuming normal weather conditions, the prospects for food and industrial crops also appear bright. In the industrial sector, manufacturing is projected to remain buoyant and to turn increasingly to exports as a new source of growth, and the rehabilitation and modernization of Ghana's mines will permit a steady expansion of output. Finally, the services sector, which accounts for about two fifths of GDP, is projected to grow in line with the rest of the economy. Transportation will benefit from the ongoing rehabilitation of the economic infrastructure; wholesale and retail services will grow in response to continued economic expansion; and financial services will recover as confidence in the banking system is restored. The education reform program will expand from junior secondary schools to other segments of the education system while the rural coverage of health services will be extended and their quality improved through extensive reforms. The expansion of the economy will depend crucially, however, upon international factors, particularly stabilization in the price of cocoa and availability of external concessional assistance at the projected levels.

External Debt and Creditworthiness

Ghana's long-term external public debt outstanding and disbursed at end-1989 amounted to US$2.6 billion, about 45 percent of GDP. Bilateral creditors account for 32 percent of the total, World Bank loans and IDA credits for 44 percent, other multilaterals for 17 percent, and financial institutions and suppliers credits for the remaining 7 percent. Despite the predominance of concessional loans in its external debt portfolio, Ghana's debt service burden is heavy for several reasons: first, amortization of previously rescheduled debt began in 1983; second, arrears at the end of 1989 are to be cleared by end-June 1990; and third, the reported debt excludes the use of IMF credit (SDR 549 million outstanding at end-March 1990). The debt-service ratio on long-term public external debt was about 28 percent in 1989. Including IMF debt service and arrears payments, the debt-service ratio was 56.7 percent compared to 67.3 percent in 1988. This ratio is expected to fall further to 41.2 percent in 1990, due to lower scheduled repurchases from the IMF and lower amortization of medium-term debt.

Despite considerable gains since 1983, Ghana's economic situation remains difficult, and is accentuated by the sharp decline in the terms of trade in 1989 and 1990. Financing its foreign exchange requirements without creating an untenable foreign debt problem is therefore a central element in Ghana's macroeconomic strategy and reducing its high debt service ratio will be a key objective. Given the embryonic state of its non-traditional export base and its dependence on a few export commodities which are subject to volatility in prices, Ghana is not yet in a position to increase external borrowing on commercial terms including loans from IBRD. The role of the donor community in continuing to provide concessional aid to help ensure an adequate flow of foreign exchange to Ghana will, therefore, remain crucial.

Support by the international donor community for Ghana's reform program has been coordinated through regular Consultative Group meetings chaired by the World Bank. Total assistance from members and observers of the Consultative Group, including IDA, rose sharply, with commitments averaging US$420 million a year in 1984-86 and US$740 million a year in 1987-89.

GHANA

Mid-1988 Population (mils.)	14
1988 Per Capita GNP in US$:	400

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	3.5	-0.5	2.0	6.1	6.1
Net Indirect Taxes	12.8	8.0	3.6	..	..	..	..	..	..	..	..
Agriculture	43.5	49.0	57.9	50.6	49.3	48.9	4.5	0.0	0.5	3.6	4.9
Industry	18.6	18.6	11.9	15.9	16.2	17.4	4.3	-3.4	1.9	10.2	8.6
(of which Manufacturing)	9.8	11.7	7.8	9.9	10.1	10.5	6.5	-2.8	3.1	9.3	7.9
Services	37.9	32.4	30.2	33.5	34.5	33.7	1.1	0.6	4.9	8.0	6.7
Resource Balance	-9.6	5.1	-0.7	-2.9	-5.9	..	..	..	..	..	..
Exports of GNFS	17.1	21.4	8.5	20.6	18.6	..	0.4	-8.7	3.2	7.9	..
Imports of GNFS	26.7	16.4	9.2	23.6	24.5	..	-7.8	-3.6	3.8	14.4	..
Total Expenditures	109.6	94.9	100.7	102.9	105.9	..	0.5	0.9	2.2	7.7	..
Total Consumption	91.7	85.9	95.1	92.2	93.6	..	1.2	1.5	1.9	7.1	..
Private Consumption	77.3	75.0	83.9	81.6	84.3	..	1.2	0.9	2.2	8.1	..
General Government	14.5	10.9	11.2	10.6	9.4	..	1.1	8.4	-0.3	-0.8	..
Gross Domestic Investment	17.9	9.0	5.6	10.9	12.3	..	-3.5	-3.6	4.9	12.7	..
Fixed Investment	..	7.7	6.1	10.7	..	..	3.6	-0.8	2.5	..	..
Changes in Stocks	..	1.4	-0.5	0.1	..	..	..	..	..	..	..
Gross Domestic Saving	8.3	14.1	4.9	7.9	6.4	..	29.5	-9.1	0.1	-27.9	..
Net Factor Income	-1.3	-0.8	-0.4	-2.7	-2.5	..	..	..	..	..	..
Net Current Transfers	0.0	-0.2	0.0	4.2	3.3	3.8	..	..	..	..	..
Gross National Saving	7.0	13.1	4.5	9.3	7.1	..	49.6	-9.9	3.8	-31.8	..

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	582	717	700	746	792	840	3.5	-0.5	2.0	6.1	6.1
Capacity to Import	214	243	150	154	153	..	-0.8	-6.1	1.8	-0.9	..
Terms of Trade Adjustment	-56	-13	23	0	-14	..	..	..	..	..	..
Gross Domestic Income	526	704	723	746	778	..	3.4	0.2	1.7	4.3	..
Gross National Product	574	709	690	726	770	..	3.5	-0.5	1.8	6.2	..
Gross National Income	518	696	713	726	757	..	3.4	0.2	1.5	4.3	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	6.3	57.4	71.5	100.0	131.4	..	6.4	60.3	43.0	31.4	..
Wholesale Prices (IFS 63)	3.3	43.3	70.7	100.0	..	..	8.9	45.7	67.8	..	..
Implicit GDP Deflator	6.1	50.6	71.7	100.0	133.6	169.0	7.9	45.8	46.2	33.6	26.5
Implicit Expenditures Defl.	5.9	50.4	75.3	100.0	135.5	..	9.6	44.2	46.8	35.5	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.3	1.8	3.5
Labor Force	..	..	..
Gross Natl. Income p.c.	1.1	-1.6	-1.9
Private Consumption p.c.	-1.1	-1.0	-1.2
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	-2.2	6.9	1.9
Marginal Savings Rates:			
Gross National Saving	40.8	551.6	30.5
Gross Domestic Saving	40.9	482.6	16.3
ICOR (period averages):	..	-37.1	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	61.0	57.6	55.8	..
Industry	15.3	17.0	17.8	..
Services	23.7	25.4	26.4	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.BEV.COCOA	117.6	94.1	108.2	100.0	101.2	..	793	412	503	495	462	..
X.MET.AU	..	..	..	..	..	..	190	92	106	142	151	..
X.TIM	100.0	91.0	82.0	100.0	110.0	..	34	28	44	91	107	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	87	101	96	99	162	..
Total Exports FOB	..	..	..	..	..	..	1,104	633	749	827	882	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	40	45	75	43	..
Fuel and energy	..	..	..	..	..	..	..	200	125	145	148	..
Other Consumer Goods	..	..	..	..	..	..	..	79	87	95	108	..
Other Intermed. Goods	..	..	..	..	..	..	..	223	247	297	326	..
Capital goods	..	..	..	..	..	..	..	187	296	413	466	..
Total Imports CIF	144.9	92.8	107.2	100.0	..	..	972	729	800	1,025	1,091	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	161.6	90.8	98.7	100.0	98.1	..
Merch. Imports Price Index	65.4	76.6	72.8	100.0	102.0	..
Merch. Terms of Trade	246.9	118.5	135.8	100.0	96.0	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,210	670	813	899	957	912
Merchandise (FOB)	1,104	632	773	827	881	830
Non-Factor Services	107	38	40	72	76	82
Imports of Goods & NFS	1,175	836	940	1,189	1,265	1,348
Merchandise (FOB)	908	669	712	952	1,091	1,164
Non-Factor Services	266	168	228	238	173	184
Resource Balance	36	-166	-127	-290	-308	-436
Net Factor Income	-86	-111	-111	-132	-131	-114
(interest per DRS)	30	31	45	58	64	76
Net Current Transfers	-3	33	72	202	172	202
(workers' remittances)	1	0	1	1	..	..
Curr. A/C Bal. before Off. Transf.	-54	-244	-166	-220	-267	-348
Net Official Transfers	83	110	123	123	174	225
Curr. A/C Bal. after Off. Transf.	29	-134	-43	-97	-93	-123
Long-Term Capital Inflow	64	45	146	232	192	..
Direct Investment	16	6	4	5	5	8
Net LT Loans (DRS data)	98	123	275	221	212	..
Other LT Inflow (Net)	-50	-83	-133	7	-25	..
Total Other Items (net)	-189	150	-133	-70	15	..
Net Short Term Capital	-89	86	-52	-51	15	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-100	63	-81	-19	0	..
Changes in Net Reserves	96	-60	30	-66	-148	..
Net Credit from the IMF	-31	188	92	89	-165	..
Other Reserves Changes	126	-249	-62	-155	16	..
As Share of GDP:						
Resource Balance	0.8	-3.7	-2.2	-5.7	-5.9	-8.3
Interest Payments	0.7	0.7	0.8	1.1	1.2	1.4
Current Account Balance	-1.2	-5.4	-2.9	-4.3	-5.1	-6.6
Memorandum Items:						
Reserves excl. Gold (mil. US$)	180	479	513	195	221	347
Reserves incl. Gold (mil. US$)	330	552	624	332	310	436
Official X-Rate (LCUs/US$)	2.75	54.37	89.20	153.73	202.35	270.00
Index Real Eff. X-R Base 1980	100.00	52.44	30.23	23.34	22.38	21.12
GDP (millions of current US$)	4,445	4,504	5,723	5,075	5,228	5,258

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	11.3	12.4	13.4	12.2	13.0	..	..	..	..	..
Current Expenditures	..	11.2	11.9	10.8	10.5	11.0	..	..	..	..	..
Current Budget Balance	..	0.1	0.5	2.6	1.7	2.0	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	4.2	7.3	7.9	8.0	8.3	..	..	..	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-4.1	-5.5	-5.1	-5.3	-5.7	..	..	..	..	..
Official Capital Grants	..	0.6	1.5	1.8	1.3	2.3	..	..	..	..	..
External Borrowing (net)	..	..	..	..	..	..	..	..	..	..	..
Domestic Non-Bank Financing	..	0.3	0.6	0.6	0.5	0.5	..	..	..	..	..
Domestic Bank Financing	..	0.9	0.5	-1.0	-1.1	-1.6	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989p	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	98	114	277	221	210	226	1,068	1,250	1,648	2,128	2,238	2,627
Official Creditors	118	95	207	246	245	285	931	1,091	1,417	1,860	2,010	2,433
Multilateral	47	96	198	238	221	225	279	539	795	1,152	1,318	1,597
of which IBRD	21	-2	-9	-11	-11	-9	114	118	134	151	128	118
of which IDA	5	62	168	192	204	167	99	259	446	700	876	1,030
Bilateral	72	-1	10	8	24	61	653	552	622	708	692	835
Private Creditors	-20	19	70	-25	-35	-59	137	160	232	269	228	194
Suppliers	1	20	-10	-12	-12	-13	130	97	88	85	71	55
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	8	-3	0	2	2	10	40	38	30	32	33
Total LT	98	123	275	221	212	228	1,078	1,290	1,686	2,158	2,270	2,660
IMF Credit	0	115	5	-41	-60	-7	105	701	786	867	762	738
Net Short-Term Capital	-89	86	-52	-51	15	..	131	183	180	108	67	54
Total incl. IMF & Net ST	10	323	227	129	167	..	1,315	2,174	2,652	3,133	3,099	3,452

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	10.59	9.18	7.94	7.00	5.63	4.48
2. IDA as % of Total	9.19	20.07	26.45	32.43	38.58	39.17
3. IBRD+IDA as % of Total	19.78	29.25	34.40	39.43	44.21	43.65
Share of LT Debt Service						
1. IBRD as % of Total	11.22	18.28	13.65	12.62	11.75	7.37
2. IDA as % of Total	0.60	3.27	3.34	3.96	3.92	3.07
3. IBRD+IDA as % of Total	11.82	21.55	16.99	16.58	15.66	10.44
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	88.86	190.76	205.84	237.97	228.79	..
2. IMF Credit/Exports	8.67	103.61	95.91	95.58	76.76	..
3. Short-Term Debt/Exports	10.79	27.07	21.98	11.94	6.72	..
4. LT+IMF+ST DOD/Exports	108.31	321.44	323.72	345.49	312.27	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	24.26	28.65	29.46	42.52	43.43	50.00
2. IMF Credit/GDP	2.37	15.56	13.73	17.08	14.57	14.03
3. Short-Term Debt/GDP	2.94	4.07	3.15	2.13	1.28	0.46
4. LT+IMF+ST DOD/GDP	29.57	48.28	46.33	61.73	59.27	64.49
Debt Service /Exports						
1. Public & Guaranteed LT	8.30	14.47	15.36	18.07	19.67	..
2. Private Non-guaranteed LT	0.00	0.00	1.10	1.15	0.92	..
3. Total Long-Term Debt Service	8.30	14.47	16.46	19.22	20.59	..
4. IMF Repurchases+Serv. Chgs.	2.73	6.87	10.40	26.25	32.64	..
5. Interest only on ST Debt	1.50	2.62	1.64	1.14	0.95	..
6. Total (LT+IMF+ST Int.)	12.52	32.24	28.93	49.88	58.18	..

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Guatemala

Guatemala, the largest of the five Central American countries in terms of population, has a very uneven distribution of land and income. A majority of the population lacks access to basic services, and the Indian population—almost one half of the country's 8.9 million total—lives in extreme poverty, divided by its own language barriers, and at the margin of the money economy.

In the 1960s and 1970s, the economy recorded steady growth (averaging about 6 percent per year), based primarily on continued expansion of traditional exports, especially coffee, bananas, sugar, cotton, and meat, as well as rapid growth of manufactures within the framework of the central American Common Market (CACM). Income from tourism also expanded rapidly during the period. However, by the end of the 1970s, social tensions became acute, and unsettled security conditions discouraged tourism, private investment, and external financing.

During the 1980-85 period, GDP declined on average by about 1.4 percent per year, owing to deteriorating external economic conditions and inappropriate domestic macroeconomic policies. Lower export prices for Guatemala's main exports and higher import prices worsened the terms of trade and significantly reduced trade volumes which brought about a major fall in tax revenues. At the same time, the uncertain political and economic climate in Guatemala and the rest of Central America exacerbated capital flight, sharply reduced investment and access to foreign financing, and depressed exports, especially to CACM. Insufficient and untimely economic adjustment policies, particularly multiple exchange rate practices, contributed to the overall deterioration.

Despite these increasingly serious economic problems, the country's political situation began to change, as the country elected a Constituent Assembly, prepared a new constitution and moved towards democratic rule with the election of a civilian president in late 1985. The new government of President Cerezo, which took office in mid-January 1986, confronted the difficult task of redressing the internal and external imbalances caused by fiscal indiscipline, highly negative real interest rates, and the unmanageable multiple exchange rate regime. Compounding these economic problems were underlying structural problems, including (i) a generally inefficient public sector, with limited capacity to provide social services as indicated by poor health indicators and low literacy levels; (ii) inadequate levels of resource mobilization reflecting traditionally low savings to GDP ratios; (iii) a strong anti-export bias in the trade regime, with the manufacturing sector operating behind high tariff barriers as part of the CACM; (iv) continued heavy reliance on a few agricultural commodity exports; and (iv) low agricultural productivity, reflecting unfavorable internal terms of trade, inadequate technical assistance, and land distribution issues.

Economic Developments in 1986-88

In early 1986 the new government put into place a package of stabilization measures which successfully reduced inflation from a peak of 47 percent per annum in April 1986 to about 8 percent by mid-1987, and to an average of about 12 percent for the whole of 1987. The decline in inflationary pressures was largely due to a 60 percent decline in the losses of the Bank of Guatemala, which fell to about 1.8 percent of GDP, as well as to a reduction in the non-financial public sector deficit to about 0.7 percent of GDP. The pursuit of tighter monetary policies resulted in interest rates yielding positive real returns. Considerable progress was also made in simplifying the exchange rate system, initiating actions to rationalize the trade regime, and in introducing institutional improvements in support of exports, which helped spur a sharp rise in non-traditional exports, which grew by 29 percent in dollar terms during 1987. Overall, the economic program of the government halted the slide in GDP in 1986 and helped restore GDP growth to over 3 percent in 1987.

Despite progress in arresting inflation and restoring growth, the fiscal and balance of payments situation again deteriorated during 1987. The non-financial public sector deficit (including the losses of the Bank of Guatemala) increased as central government finances deteriorated and exchange losses grew. Buoyant public and private investment demand sharply increased demand for imports, with total imports growing by more than 50 percent in 1987, while exports fell because of a drop in revenues from coffee exports. As a consequence, the current account deficit increased sharply from a low of only 0.6 percent of GDP in 1986 to 7.9 percent of GDP in 1987.

As a result of these negative developments in the fiscal and external accounts, the government introduced a series of corrective measures from September 1987 onwards. The most significant measure was the introduction of a major tax reform which reduced marginal income tax rates, closed several tax loopholes, and increased tax revenues by about 0.9 percent of GDP during 1988. The government also adopted a more restrictive monetary stance and, in early 1988, increased electricity tariff rates by 25 percent. As these initial measures were insufficient to improve the balance of payments situation, the government introduced an additional economic package in June 1988. The principal measures were (i) the unification of the exchange rate at Q2.7 per US$1; (ii) an increase in deposits and lending rate ceilings; (iii) increases in the price of fuels; and (iv) stricter control of public expenditures, especially with regard to purchases of goods and services.

During 1988 the economy grew by about 3.5 percent of GDP while inflation remained unchanged at about 12 percent. Nevertheless, these positive developments were overshadowed by continuing fiscal and balance of payments problems. While the losses of the Bank of Guatemala declined, the deficit of the central government increased to 2.9 percent of GDP, despite the almost one-percentage point of GDP increase in tax revenues to 8.8 percent of GDP. The trade balance remained virtually the same as in 1987, with a deficit of $460 million. Although exports recovered, imports also continued to grow owing to the high propensity to import. Although a significant increase in net transfers caused the current account deficit to decline, the deficit still constituted about 6.2 percent of GDP in 1988. This high current account deficit coupled with a loss of international reserves of about $80 million made it necessary for the Bank of Guatemala to refinance about $400 million in dollar denominated stabilization bonds which had been issued in 1982 to 1984 to cover trade related arrears.

Recent Economic Developments

Although Guatemala's economy continued growing during 1989 at a satisfactory rate of 4 percent, with inflation remaining largely unchanged until October (11-12 percent on an annual basis) the country continued to suffer from serious balance of payments and fiscal constraints. Overall results were therefore mixed, with the economy experiencing a clear deterioration towards the end of 1989 and continuing into 1990. In order to cope with the deteriorating balance of payments situation and pursue its goal of liberalizing the economy, the government took a number of important actions during 1989, including major policy changes in the interest rate and exchange rate regimes. However, these measures failed to achieve the desired impact, in part because of inadequate policy coordination and timing.

More specifically, in mid-August 1989, the Monetary Board announced: (i) a small devaluation of the Quetzal, combined with the introduction of a flexible exchange rate policy; (ii) the liberalization of interest rates; and (iii) measures to facilitate open market operations. Although the August measures were clearly in the right direction, continued strong pressure on international reserves and strong import demand forced the Monetary Board to float the exchange rate in November 1989. This led to a sharp devaluation of the Quetzal from 2.78 per U.S. dollar to 3.4 by the end of the year which, in turn, fueled inflation. Since the liberalization of the exchange rate, monetary policy has been passive and has therefore not been supportive in counteracting the devaluation-price spiral. For this reason, the exchange rate continued to fall and inflation to pick up. By the end of May 1990, the exchange rate had reached Q4.30 per U.S. dollar and inflation had increased to about 35 percent on a May to May basis.

The underlying causes of Guatemala's increasing economic difficulties stem from inadequate fiscal and monetary policies. First, the financial situation of the central government has deteriorated, with the deficit in 1989 increasing to 3.7 percent of GDP, largely due to a fall in tax revenues. Tax collections fell from 8.8 percent of GDP in 1988 to about 7.8 percent in 1989 and are expected to further worsen in 1990. Assuming current trends continue, tax collections could well fall by another 0.5 of GDP by the end of 1990, thus undermining the government's ongoing deficit reduction effort. Second, since floating the exchange rate, the Monetary Board has introduced various exchange rate guarantees (some of which have since been modified or reduced) which have caused substantial losses to the Bank of Guatemala. These losses have been monetized, thus contributing to the inflationary pressures since November 1989. Third, a passive monetary policy kept interest rates unchanged until February 1990. Although adjustments to interest rates have since taken place, the slow reaction of the monetary authorities to the emergence of negative real interest rates has put increased pressure on the exchange rate and also served as a powerful disincentive to save in the domestic market. As a consequence, despite floating the exchange rate, the Bank of Guatemala continued to lose international reserves during the initial months of 1990.

Prospects for the remainder of 1990 are unclear, with the economic outlook blurred by the upcoming presidential elections in October 1990. The political constraints imposed by the election are expected to make it more difficult for the government to enforce fiscal discipline or for the Bank of Guatemala to put in place a monetary program which will be able to bring inflation down to more manageable levels.

Medium Term Prospects

Guatemala's medium-term prospects will depend to a great extent on the ability of the next government (to take office in January 1991) to put in place and carry out a well coordinated stabilization and adjustment program which will not only address the constraints spelled out above, but also a number of underlying structural problems impeding recovery and a wider distribution of the benefits of growth. These include: (i) the implementation of sound monetary and fiscal policies conducive to healthy, noninflationary growth; (i) further reform of the tax system and improvement in its administration to increase the mobilization of resources by the public sector; (iii) the need to continue reforms of the trade regime and import tariff structure to further encourage growth of internationally competitive industries; (iv) encouraging stronger growth in the agriculture sector, through an appropriate policy and incentive framework to stimulate efficient land use and productivity increases; (v) improving productivity and employment opportunities for the poor through better targeting in the delivery of basic services in education, water supply, health and low-cost housing; and (vi) accelerating implementation of priority investment projects, including steps to reduce the large backlog of undisbursed external funds.

Guatemala's natural resources provide a solid foundation for economic recovery when combined with the adjustment and stabilization measures described above. Moreover, because of the proximity of the expanding United States market, prospects for developing non-traditional exports such as fruits, ornamental plants and flowers, are favorable. There are also good opportunities to expand tourism given Guatemala's attractive natural and cultural resources. Provided that Guatemala can implement a comprehensive adjustment program which lays the basis for a sustained increase in private and public investment, the country could maintain a growth rate of 3 to 4 percent during the next two years, while laying the foundation for a still higher rate of growth by the mid-1990s. Over the long-term, the country should be able to achieve growth rates almost as high as in the 1960's and 1970s, but with a wider participation in the benefits of economic development.

Although the government's trade liberalization and export promotion policies should improve the country's export performance over the medium term, the persistence of substantial current account deficits leaves a large financing gap in the years to come. Since external commercial loans are not likely to be available in the amount required to finance a substantial portion of the gap, continued access to bilateral and multilateral funding is essential. Nevertheless, as a result of the country's foreign exchange problems and the widening fiscal deficit, Guatemala's debt servicing capacity has dramatically deteriorated in the past few months. As a consequence, Guatemala has begun to build up debt service arrears. The growing arrears problem with external creditors underscores the importance of strong government action to tackle fiscal and balance of payments constraints, if the country is to regain and strengthen its traditional creditworthiness and maintain access to adequate capital inflows.

Guatemala's total long-term external debt increased from US$0.8 billion in 1980 to US$2.3 billion in 1989, while the debt service ratio (debt service divided by exports of goods and services) jumped from 8 percent to 25 percent over the same period. As a percentage of GNP, total debt increased from about 10 percent in 1980 to about 28 percent in 1988. Despite this increase in debt, Guatemala's overall debt situation remains manageable, assuming the country is able to take the adjustment actions noted earlier and can attract the additional long-term financing required.

Guatemala is expected to try to cover part of its financing needs through rescheduling of debt service due to bilateral and commercial creditors. However, the bulk of the financing required will have to come from bilateral and multilateral sources, since prospects for additional commercial bank lending are limited.

GUATEMALA

Mid-1988 Population (mils.)	9
1988 Per Capita GNP in US$:	890

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.0	5.5	-0.2	3.8	4.0
Net Indirect Taxes	7.4	6.6	7.6	..	..	..	..	..	..	..	..
Agriculture	..	..	..	..	..	..	5.8	4.2	0.4	4.4	2.9
Industry	..	..	..	..	..	..	7.2	9.9	-1.4	3.5	0.6
(of which Manufacturing)	..	..	..	..	..	..	7.4	7.8	..	..	..
Services	..	..	..	..	..	..	5.8	6.6	0.9	3.6	3.9
Resource Balance	-2.8	0.7	-2.7	-6.5	-5.8	-4.7	..	..	..	..	..
Exports of GNFS	16.8	20.9	22.2	16.0	16.1	17.8	7.0	5.2	-4.9	5.1	9.4
Imports of GNFS	19.6	20.2	24.9	22.4	21.9	22.6	3.3	5.8	-5.0	3.8	4.6
Total Expenditures	102.8	99.3	102.7	106.5	105.8	104.7	5.0	5.7	-0.4	3.6	3.3
Total Consumption	89.5	85.6	86.9	92.7	92.0	91.4	4.9	5.5	0.1	4.3	4.0
Private Consumption	82.2	79.2	78.9	84.9	84.1	83.7	4.9	5.3	-0.1	4.2	4.4
General Government	7.4	6.5	8.0	7.8	8.0	7.8	5.7	8.1	2.0	4.7	-0.4
Gross Domestic Investment	13.3	13.7	15.9	13.8	13.8	13.3	5.3	6.6	-3.6	-1.0	-1.6
Fixed Investment	13.1	13.9	16.4	12.2	13.3	14.2	5.1	8.5	-5.3	11.8	13.3
Changes in Stocks	0.2	-0.2	-0.6	1.6	0.4	-0.9	..	..	..	..	..
Gross Domestic Saving	10.5	14.4	13.1	7.3	8.0	8.6	10.9	2.4	-4.2	2.3	11.2
Net Factor Income	-1.3	-1.9	-0.9	-2.4	-2.3	-2.2	..	..	..	..	..
Net Current Transfers	0.0	1.7	1.4	1.4	1.8	1.9	..	..	..	..	..
Gross National Saving	9.2	14.2	13.6	6.3	7.5	8.3	12.7	3.3	-5.3	9.6	15.7
In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	7,864	12,589	18,029	17,595	18,256	18,982	6.0	5.5	-0.2	3.8	4.0
Capacity to Import	2,659	4,213	4,940	2,807	3,011	3,386	5.4	3.8	-5.2	7.3	12.5
Terms of Trade Adjustment	1,015	1,151	525	0	61	159	..	..	..	..	..
Gross Domestic Income	8,879	13,741	18,554	17,595	18,318	19,140	5.6	5.1	-0.3	4.1	4.5
Gross National Product	7,756	12,316	17,787	17,170	17,832	18,563	5.9	5.7	-0.3	3.9	4.1
Gross National Income	8,771	13,467	18,312	17,170	17,893	18,722	5.5	5.3	-0.4	4.2	4.6

			(1987 = 100)				Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	45.3	65.0	89.0	100.0	110.8	..	2.0	11.5	12.3	10.8	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	2.7	11.3	9.5	..	..
Implicit GDP Deflator	43.7	65.6	92.8	100.0	112.5	126.7	1.9	11.3	13.3	12.5	12.6
Implicit Expenditures Defl.	42.2	66.0	91.2	100.0	112.0	125.7	2.6	11.6	13.6	12.0	12.2

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.8	2.8	2.9
Labor Force	..	..	..
Gross Natl. Income p.c.	2.7	2.4	-3.2
Private Consumption p.c.	2.0	2.4	-2.9
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.5	1.1	31.3
Marginal Savings Rates:			
Gross National Saving	23.9	11.9	-1823.0
Gross Domestic Saving	21.4	9.8	-284.6
ICOR (period averages):	..	4.0	99.4

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	64.0	59.9	56.8	..
Industry	15.2	17.0	17.0	..
Services	20.8	23.1	26.1	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.BEV.COFFEE	97.1	139.8	94.2	100.0	100.5	124.3	..	452	502	355	387	381
X.FOOD.SUGAR	74.6	94.8	128.4	100.0	134.7	152.2	..	44	52	51	78	115
X.FOOD.BANANA	108.7	89.1	92.4	100.0	93.5	97.9	..	71	73	75	76	82
X.OAGRI.COTTON	833.3	350.0	191.7	100.0	183.7	179.8	..	72	24	16	37	37
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	133.3	98.7	89.3	100.0	104.7	103.8	..	421	393	481	496	576
Total Exports FOB	135.1	114.9	94.6	100.0	105.8	115.9	..	1,060	1,044	978	1,074	1,191
F. Merchandise Imports												
Food	64.9	69.5	61.0	100.0	92.6	101.0	..	85	123	184	207	216
Fuel and energy	131.6	111.8	130.3	100.0	105.2	91.5	..	262	94	105	111	115
Other Consumer Goods	192.3	126.9	80.8	100.0	109.8	111.6	..	152	35	70	75	78
Other Intermed. Goods	102.0	91.8	81.6	100.0	118.7	128.1	..	479	494	672	722	798
Capital goods	137.0	78.1	64.4	100.0	97.0	99.0	..	197	213	416	442	462
Total Imports CIF	109.9	86.8	75.8	100.0	107.1	112.1	..	1,175	959	1,447	1,556	1,668

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	114.9	94.3	113.8	100.0	103.7	104.9
Merch. Imports Price Index	100.0	93.0	87.0	100.0	98.5	100.9
Merch. Terms of Trade	113.6	100.0	129.5	100.0	104.1	102.8

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,731	1,161	1,167	1,136	1,270	1,500
Merchandise (FOB)	1,520	1,060	1,044	978	1,070	1,190
Non-Factor Services	211	101	123	158	196	310
Imports of Goods & NFS	1,959	1,257	1,046	1,593	1,730	1,900
Merchandise (FOB)	1,473	1,077	876	1,333	1,410	1,510
Non-Factor Services	486	180	170	260	318	386
Resource Balance	-228	-96	121	-457	-462	-400
Net Factor Income	-45	-170	-214	-179	-176	-184
(interest per DRS)	60	116	154	154	104	155
Net Current Transfers	109	19	51	101	142	166
(workers' remittances)	..	..	..	..	43	..
Curr. A/C Bal. before Off. Transf.	-165	-247	-42	-535	-497	-418
Net Official Transfers	1	1	25	92	83	105
Curr. A/C Bal. after Off. Transf.	-163	-246	-18	-443	-414	-313
Long-Term Capital Inflow	238	242	45	137	165	235
Direct Investment	111	62	69	150	330	80
Net LT Loans (DRS data)	92	112	44	-30	7	75
Other LT Inflow (Net)	35	68	-69	16	-172	80
Total Other Items (net)	-333	112	82	252	111	-34
Net Short Term Capital	-315	68	15	324	113	-34
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-18	44	67	-73	-2	0
Changes in Net Reserves	258	-107	-109	54	139	112
Net Credit from the IMF	..	-34	-46	-11	29	-13
Other Reserves Changes	258	-73	-63	65	110	125
As Share of GDP:						
Resource Balance	-2.9	-1.0	1.7	-6.5	-5.7	-4.8
Interest Payments	0.8	1.2	2.1	2.2	1.3	1.9
Current Account Balance	-2.1	-2.5	-0.6	-7.6	-6.2	-5.0
Memorandum Items:						
Reserves excl. Gold (mil. US$)	445	301	362	288	201	306
Reserves incl. Gold (mil. US$)	753	472	566	541	416	524
Official X-Rate (LCUs/US$)	1.00	1.00	1.88	2.50	2.62	2.82
Index Real Eff. X-R Base 1980	100.00	87.17	84.98	81.82	75.71	..
GDP (millions of current US$)	7,879	9,722	7,232	7,038	8,056	8,296

I. Public Sector Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	12.2	10.6	11.2	12.2	..	..	..	48.0	20.6	..	..
Current Expenditures	10.0	9.3	10.2	11.5	..	..	8.1	53.8	24.7	..	..
Current Budget Balance	2.2	1.3	1.0	0.7	..	..	-66.5	7.5	-20.4	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	6.7	2.7	2.0	2.9	..	..	-12.4	4.4	61.7	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-4.4	-1.3	-1.0	-2.2	..	..	6.1	4.1	143.1	..	..
Official Capital Grants	..	..	0.8	..	..	..	..	..	..	..	..
External Borrowing (net)	1.2	0.1	0.9	..	..	..	..	..	..	..	..
Domestic Financing (net)	3.2	1.3	-0.6	..	..	..	..	..	..	..	..
Domestic Bank Financing	..	..	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	122	110	33	-27	10	88	549	2,136	2,261	2,337	2,131	2,191
Official Creditors	113	141	87	-8	87	54	534	1,347	1,527	1,622	1,672	1,700
Multilateral	65	111	37	-31	43	30	350	704	821	891	892	910
of which IBRD	35	36	-1	-11	-22	-13	144	225	277	330	280	261
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	47	30	50	23	45	24	183	643	706	731	781	790
Private Creditors	10	-31	-55	-19	-78	35	15	789	734	715	458	491
Suppliers	-2	0	0	0	0	0	1	0	0	0	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	-30	2	12	-3	-3	-13	282	106	119	116	113	100
Total LT	92	112	44	-30	7	75	831	2,242	2,380	2,453	2,244	2,291
IMF Credit	0	-49	-56	-20	32	-13	0	116	70	59	88	73
Net Short-Term Capital	-315	68	15	324	113	-34	335	260	306	305	301	301
Total incl. IMF & Net ST	-222	132	3	274	152	28	1,166	2,617	2,755	2,816	2,633	2,665

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	17.31	10.05	11.63	13.46	12.48	11.37
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	17.31	10.05	11.63	13.46	12.48	11.37
Share of LT Debt Service						
1. IBRD as % of Total	10.64	9.10	13.27	14.98	14.41	12.65
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	10.64	9.10	13.27	14.98	14.41	12.65
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	45.30	188.18	197.78	210.11	166.90	150.66
2. IMF Credit/Exports	0.00	9.70	5.82	5.06	6.55	4.80
3. Short-Term Debt/Exports	18.27	21.79	25.39	26.09	22.38	19.80
4. LT+IMF+ST DOD/Exports	63.57	219.67	228.99	241.26	195.83	175.26
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	10.54	23.06	32.91	34.85	27.85	27.61
2. IMF Credit/GDP	0.00	1.19	0.97	0.84	1.09	0.88
3. Short-Term Debt/GDP	4.25	2.67	4.22	4.33	3.73	3.63
4. LT+IMF+ST DOD/GDP	14.80	26.92	38.10	40.01	32.68	32.12
Debt Service /Exports						
1. Public & Guaranteed LT	2.44	21.48	23.45	25.04	26.05	23.40
2. Private Non-guaranteed LT	5.04	1.03	0.97	0.93	0.65	1.45
3. Total Long-Term Debt Service	7.48	22.51	24.42	25.97	26.70	24.85
4. IMF Repurchases+Serv. Chgs.		4.99	5.39	2.17	2.37	1.30
5. Interest only on ST Debt	0.42	0.50	0.48	0.67	0.84	0.72
6. Total (LT+IMF+ST Int.)	7.90	28.00	30.29	33.35	29.90	26.87

Notes:

/1 Calculated from original 1958 base year.

e = estimated data
p = preliminary data

Guinea

Guinea's agricultural, mineral and energy resources make it one of Africa's more richly endowed countries. Yet, per capita income in this country of 6.5 million inhabitants is only US$400 (1988), placing it among the least developed countries as defined by the United Nations. Living standards are uniformly poor, as reflected in key social indicators: life expectancy is 40 years, infant mortality is about 145 per 1,000, more than 80 percent of the population lack access to safe water and are illiterate.

In September 1958, Guinea became the first independent nation of former French West Africa. From being a major exporter of agricultural products at independence, Guinea's economy was transformed by the mid-1970s into that of a major bauxite exporter and a net food importer. The private sector was largely displaced by a pervasive network of state enterprises and controls in all sectors of the economy. Urbanization accelerated as productive activities and incomes were increasingly shifted from the rural to the urban sector.

Emphasis on state-led development did not achieve the desired modernization and industrialization; the currency became increasingly overvalued under pressure from the inefficient public sector and resulted in serious misallocation of resources creating disincentives to exports; the inability to mobilize domestic savings led to an increasingly heavy debt burden and the dynamic agricultural sector retreated into subsistence production. Throughout the 1958-84 period, the economy produced at levels well below potential due to inadequate producer incentives and deteriorating physical infrastructure. Economic growth remained below the rate of population increase of close to 3 percent per annum, except in 1973-76 when activity was stimulated by expanding bauxite operations. The economy became increasingly dualistic. The official sector depended on bauxite exports for its income and functioned through an elaborate system of administered prices linked to a highly overvalued currency while the non-official sector, which derived its income from clandestine exports and private transfers from abroad, was supplied largely by smuggled or pilfered imports. Its scope expanded steadily as the supply of goods imported through official channels became insufficient to meet demand for foodstuffs and other essential goods. By the early 1980s, the non-official sector satisfied about 80 percent of urban consumer demand and virtually all demand for marketed consumer goods outside the capital, Conakry.

The extended deterioration of Guinea's economy was reflected in increasingly severe financial difficulties by the early 1980s. The financial position of the government itself was eroded chiefly by poor performance in the parastatal sector. Tax receipts and transfers from enterprises declined as the private sector grew to dominate consumer trade, while budgetary subsidies to public enterprises expanded. The economy's external position became unsustainable, chiefly the result of public investment outside the mining enclave which failed to generate returns adequate to service the associated external debt. Mounting debt service obligations and private capital flight, unmatched by increments in capital inflows, resulted in a continual rise in foreign liabilities of the central bank and a massive accumulation of payments arrears.

The Economic and Financial Reform Program

The military coup that brought a new regime to power on April 3, 1984, signaled a dramatic change in Guinea's political and economic policies. In an effort to reverse the longstanding deterioration of the economy and redress financial imbalances, the new leaders embarked in late 1985 on a series of ambitious economic and financial reforms, with support from international and bilateral agencies.

The overriding objective of the government's program was to free the economy from pervasive state controls and intervention and to put in place a policy framework supporting a market-oriented economic system. Specific measures to meet this broad objective were designed to: (i) correct the serious overvaluation of the currency; (ii) establish a new, reliable banking system to replace the defunct state banks; (iii) decontrol prices; (iv) liberalize internal and external trade; (v) introduce institutional reforms to promote private sector savings and investment; (vi) reduce the scale and improve the efficiency of the public sector by cutting employment levels and by withdrawing from commercial and industrial activity; and (vii) reorient public investment toward supporting the directly productive sectors.

In the course of 1986-88, significant progress was made toward meeting the objectives of the economic reform program. The new Guinean franc (GF) was introduced in January 1986, replacing the syli as Guinea's currency. At the same time, a weekly foreign exchange auction was instituted which, following an initial 14-fold devaluation, yielded a rate of exchange of GF 400 to the U.S. dollar by end-1986 and GF 530 by end-1988, while containing the premium for foreign exchange on the parallel market at 10 percent of the auction rate. Four newly established private banks were operational in Conakry, and branch banking was introduced in several provincial centers during the course of 1987 and 1988. Prices were decontrolled, except for rice and petroleum products; even these reflected the pass-through effects of devaluation. All imports were liberalized. With the exception of rice, which was duty-free, all imports were subjected to a rationalized tariff regime with relatively low rates of 5 or 10 percent, to which surcharges of 20-40 percent were added for luxury goods. By end-1989, the number of permanent public sector employees on active duty was reduced to about 51,000 (with an additional 5,000 contractual employees) from 90,000 in 1986, and transitional arrangements were in place to facilitate the absorption of laid-off staff by the private sector. Twenty-five industrial public enterprises were privatized during the period and an additional seventy, mainly commercial parastatals, were in various stages of liquidation. To provide an institutional framework for a favorable business climate, new labor, petroleum, mining, public procurement and investment codes as well as new commercial and accounting laws were enacted. In March 1987, the government also rescheduled its payments arrears on medium and long-term debt as well as maturities falling due between January 1986 and February 1987 with the Paris Club. Finally, the government adopted and presented to the first Consultative Group for Guinea held in March 1987 a new public investment program for 1987-89, reflecting the new emphasis on supporting private sector initiatives.

In mid-1989, to correct for slippages in the budget and current account deficit which appeared in early part of the year, the government took measures to reestablish a viable macroeconomic framework, including the enactment of an amended budget, increases in the interest rates, and further depreciation of the Guinean franc. Improvements in performance facilitated further arrangements with the IMF and a Paris Club rescheduling on Toronto terms of 1988 arrears and 1989 debt service due (April 12, 1989). In 1989 Guinea also obtained debt cancellation of about US$190 million under the Mitterand initiative. Thus, at end 1989 debt outstanding and disbursed had declined to 95 percent of GDP from 105 percent in 1988, whereas debt service declined from 24 percent of exports in 1988 to 21 percent in 1989. [1]

These reforms yielded encouraging results. The economy grew by 4.4 percent in real terms, an increase of over 1.6 percent per capita, between 1986-89. Furthermore, the economy adjusted quickly to the effects of devaluation and the attendant domestic price adjustments; inflation declined from 78 percent in 1986 to 28 percent in 1989. Specific area studies indicate a significant supply response to relative price changes in the agricultural zones, with the rehabilitation and renewal of coffee plantations and the expansion in areas under rice cultivation. The private sector rapidly replaced the operations of the state trading company and producers reportedly received as much as 80 percent of the Conakry f.o.b. price for their coffee. Recorded exports of coffee rose to nearly 11,000 mt in 1989 compared to negligible amounts in 1985. The small-scale enterprise and services sectors, principally construction, agroindustry, transport and trade, also exhibited significant increases in their activities. These supply responses reflected the shift in the terms of trade away from the public sector toward the rural and private industry and service sectors.

The pace of adjustment slowed again in the first quarter of 1990, with slippages in the restructuring program of key public enterprises (energy company, petroleum company, national airline, the Kindia bauxite office, and PTT) and fiscal reform. Although the growth rate for 1990 is projected to remain strong and inflation has declined, lack of progress in domestic revenue mobilization and overruns in certain expenditures continue pressure on the budget deficit. The government also accumulated some arrears on external debt. In mid-1990 the government took some key measures, prepared a new medium term macroeconomic framework and thereby reestablished the momentum of reform. The following measures among others were adopted: (i) liquidation of the national

1. The figures for debt service are from the World Bank's Debtor Reporting System (DRS). Any discrepancies between DRS and Guinean data should be reconciled by mid-1990.

petroleum company; (ii) signature of an agreement creating a new joint-venture petroleum company; (iii) strengthening of the management of the energy company; (iv) revision of the structure of interest rates; (v) further devaluation of the Guinean franc from GF 620/US$ at end December 1989 to GF 665/US$ in June 1990; and (vii) increase of the basic customs tariff from 10 to 15 percent, including the application of a 10 percent duty on imported rice. Additional measures including an increase of the specific tax on petroleum products, a reduction in current expenditures in general, and in particular, the cancellation of the 6 percent wage increase for the public sector initially programmed for July 1990, formalized through the enactment of a revised budget for 1990, still remained to be done in mid-June.

The Social Impact of Adjustment

Government policy has been to ensure that adjustment with growth is not pursued at the expense of equity. Policy changes during the first phase of the adjustment program have shifted the terms of trade in favor of rural producers. 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. These included: (i) additional payments to civil servants to compensate for the increases in cost of living and transport resulting from the devaluation and the increase in petroleum prices; (ii) continued payment for period of two years of salaries to laid-off civil servants; (iii) voluntary departure bonuses with access to loans at favorable rates for civil servants with bankable projects; (iv) advisory services to the retrenched civil servants; and (v) labor intensive work programs to create employment in Conakry.

During the second phase, the government will maintain a safety net in its investment and recurrent budgets to protect vulnerable groups against expenditure cuts, particularly in the health and education sectors, and continue to provide a severance package to staff leaving the civil service. The government's education reform places particular emphasis on primary education. In addition, the government has elaborated a comprehensive social policy which IDA is supporting through the Socioeconomic Development Support Project. In this context, a social action program will be implemented through specific sub-projects aimed at upgrading the living conditions of the poor and disadvantaged groups. Also, the ability of the government to identify target poverty groups will be strengthened along with its capacity to monitor living standards of the population during the adjustment process.

Medium-Term Prospects

While the government has taken substantial corrective action to establish the incentive framework needed to revitalize the economy, the full impact of the adjustment effort will take hold only over the medium-term and only with improved economic management.

The increase in private investment expected in response to the new incentives, along with enhanced efficiency in public investment, could result in per capita incomes of increases of a few of percentage points per annum through 1993. Even agricultural growth may grow in per capita terms over the period. With the expansion of mining activity outside the bauxite subsector and with rehabilitation of viable industrial enterprises, output in the secondary sector could experience healthy growth, spurred by growth rates well above average in manufacturing and construction. Further privatization of trade and other commercial activities should similarly stimulate growth in the tertiary sector. These developments would constitute a consolidation of recent trends in the economy and could enable Guinea to enjoy significantly improved prospects for sustained growth and savings in the decade of the 1990s. This will be possible, however, only with further pursuit of the reforms underway and continuing heavy inflows of concessional external assistance to support Guinea's public investment program and precarious balance of payments situation over the medium-term.

During the decade of the 1990s, Guinea's adjustment effort will be pursued in the context of uncertainty regarding external factors, an embryonic banking sector and poor administrative capacity and inadequate institutional structures. The economy remains fundamentally vulnerable to adverse trends in international bauxite and alumina markets. These sectors accounted for 77 percent of Guinea's total recorded merchandise export receipts in 1986-88 and 60 percent of the government's fiscal receipts. In 1989, as a result of the lags built into the pricing formula negotiated in 1986 with the Guinean Bauxite Company (CBG), export earnings and government revenues from the bauxite-alumina sector rose sharply by 24 percent and 44 percent respectively, even though output remained stable. A further increase of 15 percent in export earnings and 27 percent in revenues are expected in 1990. While the continued strong performance of the aluminum industry resulted in a significant improvement of Guinea's bauxite-alumina sector over the past two years, export earnings and government revenues are likely to decline barring a change in international markets and/or offtake levels. For example, based on the Bank's latest price projections, if production is maintained at the 1990 level of 17 million tons, export earnings will decline by about 7 percent to an average of US$560 million in 1991-93. Similarly, government revenue from the bauxite-alumina sector would remain stagnant in nominal terms through 1993.

The attainment of real per capita growth over the 1990-93 period will require significant capital inflows to rebuild the country's physical infrastructure. Transport infrastructure, the single most severe impediment to output recovery at this time, has to be rebuilt almost entirely in order to restore the links between the capital city and the interior. Power, water and telecommunication networks need to be built up to reduce the structural costs of investments and to meet the growing demands of the private sector. The ratios of current account to GDP is expected to decline from 5.2 percent in 1989 and the budget deficit (including grants) from 4.2 percent in 1989.

GUINEA

Mid-1988 Population (mils.)	7
1988 Per Capita GNP in US$:	400

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	..	5.9	4.3
Net Indirect Taxes	..	..	..	1.6	1.6	1.6	..	..	..	..	..
Agriculture	..	..	..	29.4	29.1	29.5	..	..	..	4.8	5.7
Industry	..	..	..	33.0	33.3	32.6	..	..	..	6.8	2.1
(of which Manufacturing)	..	..	..	3.5	3.5	3.4	..	..	..	5.8	1.6
Services	..	..	..	37.6	37.6	37.9	..	..	..	5.9	5.1
Resource Balance	..	..	..	0.8	-4.1	0.9	..	..	..	..	..
Exports of GNFS	..	..	..	30.4	26.2	27.0	..	..	..	-5.4	17.3
Imports of GNFS	..	..	..	29.5	30.2	26.1	..	..	..	12.3	-1.9
Total Expenditures	..	..	..	99.2	104.1	99.1	..	..	..	11.2	-1.0
Total Consumption	..	..	..	81.5	84.6	80.8	..	..	..	9.6	-2.7
Private Consumption	..	..	..	70.9	73.9	70.6	..	..	..	10.8	-4.0
General Government	..	..	..	10.7	10.6	10.2	..	..	..	2.3	6.5
Gross Domestic Investment	..	..	..	17.7	19.5	18.3	..	..	..	18.6	6.2
Fixed Investment	..	..	..	16.2	17.8	16.3	..	..	..	18.2	3.8
Changes in Stocks	..	..	..	1.5	1.7	2.0	..	..	..	..	..
Gross Domestic Saving	..	..	..	18.5	15.4	19.2	..	..	..	-10.8	42.0
Net Factor Income	..	..	..	-6.5	-6.9	-7.3	..	..	..	..	..
Net Current Transfers	..	..	..	-1.8	-1.1	-1.7	..	..	..	..	..
Gross National Saving	..	..	..	10.2	7.4	10.2	..	..	..	-31.0	30.1

In thousands of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	..	..	..	902.3M	955.26M	995.95M	..	..	..	5.9	4.3
Capacity to Import	..	..	..	273.9M	259.12M	303.98M	..	..	..	-5.4	17.3
Terms of Trade Adjustment	..	..	..	0	50,070	6,488	..	..	..	..	..
Gross Domestic Income	..	..	..	902.3M	955.31M	995.96M	..	..	..	5.9	4.3
Gross National Product	..	..	..	844M	880.63M	884.72M	..	..	..	4.3	0.5
Gross National Income	..	..	..	844M	880.68M	884.73M	..	..	..	4.3	0.5

			(1987 = 100)				Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	..	..	76.7	100.0	120.7	163.4	..	..	..	20.7	35.4
Implicit Expenditures Defl.	..	..	76.9	100.0	120.5	163.6	..	..	..	20.5	35.8

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	1.8	2.0	2.4
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	..	..	..
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	87.1	83.8	80.7	..
Industry	6.4	7.7	9.0	..
Services	6.6	8.6	10.3	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.MET.AL	..	..	..	..	..	..	..	..	85	87	93	131
X.MAN.DIAMONDS	..	..	..	..	..	..	..	..	67	82	70	91
X.MET.AU	..	..	..	..	..	..	..	..	36	43	44	50
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	..	416	416	397	449
Total Exports FOB	..	..	..	..	..	..	..	..	604	628	603	721
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	..	..	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports CIF	..	..	..	..	..	..	..	..	462	491	592	577

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	553	545	603	639	635	741
Merchandise (FOB)	500	514	603	628	603	721
Non-Factor Services	53	31	0	11	32	20
Imports of Goods & NFS	481	475	542	622	733	716
Merchandise (FOB)	339	396	462	491	592	577
Non-Factor Services	142	79	80	132	142	139
Resource Balance	72	69	61	17	-99	25
Net Factor Income	-95	0	-144	-136	-169	-201
(interest per DRS)	24	18	13	37	31	32
Net Current Transfers	-3	0	-15	-38	-27	-48
(workers' remittances)	0	..	0	0	0	0
Curr. A/C Bal. before Off. Transf.	-26	69	-98	-157	-294	-223
Net Official Transfers	17	0	42	83	84	98
Curr. A/C Bal. after Off. Transf.	-9	69	-56	-74	-210	-126
Long-Term Capital Inflow	46	-32	161	73	232	231
Direct Investment	34	0	5	5	7	10
Net LT Loans (DRS data)	35	71	159	52	197	212
Other LT Inflow (Net)	-23	-102	-3	16	29	9
Total Other Items (net)	-6	-36	-77	30	-44	-83
Net Short Term Capital	-21	-28	-54	-1	153	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	15	-8	-23	30	-197	-83
Changes in Net Reserves	-30	-2	-28	-29	22	-23
Net Credit from the IMF	-7	1	11	15	0	17
Other Reserves Changes	-24	-4	-39	-43	22	-40
As Share of GDP:						
Resource Balance	..	..	3.1	0.8	-4.1	0.9
Interest Payments	..	..	0.6	1.8	1.3	1.2
Current Account Balance	..	..	-4.9	-7.5	-12.1	-8.1
Memorandum Items:						
Reserves excl. Gold (mil. US$)	..	..	..	..	..	..
Reserves incl. Gold (mil. US$)	0	0	0	0	0	0
Official X-Rate (LCUs/US$)	18.97	24.33	333.45	428.40	474.40	591.65
Index Real Eff. X-R Base 1980	..	..	..	..	..	..
GDP (millions of current US$)	..	..	2,013	2,106	2,430	2,751

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	..	18.8	16.7	18.4	..	..	..	19.3	40.4	..
Current Expenditures	..	..	15.9	16.3	14.9	..	..	..	37.9	16.5	..
Current Budget Balance	..	..	2.9	0.4	3.4	..	..	..	-83.5	1140.6	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	..	12.6	18.4	23.3	..	..	..	46.3	26.9	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	..	9.7	17.9	17.4	..	..	..	85.1	-2.7	..
Official Capital Grants	..	..	1.9	3.9	3.3	..	..	..	9.5	43.3	..
External Borrowing (net)	..	..	6.6	7.9	8.9	..	..	..	42.8	28.6	..
Domestic Non-Bank Financing	..	..	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	..	..	-0.4	-4.6	-1.8	..	..	..	-51.2	243.1	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	35	71	159	52	197	212	1,017	1,299	1,752	2,081	2,312	2,397
Official Creditors	-1	52	160	53	164	177	832	1,073	1,630	1,953	2,099	2,177
Multilateral	20	19	66	49	103	109	130	258	354	454	536	555
of which IBRD	-3	-5	-8	-10	-12	-11	55	55	61	65	47	37
of which IDA	10	22	36	39	48	63	32	117	160	217	257	317
Bilateral	-21	33	94	4	62	68	702	815	1,276	1,499	1,563	1,621
Private Creditors	36	19	-1	-2	32	35	185	226	122	128	213	221
Suppliers	19	11	-1	-2	40	42	152	173	92	95	134	139
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	35	71	159	52	197	212	1,017	1,299	1,752	2,081	2,312	2,397
IMF Credit	7	-3	5	-6	10	14	46	42	52	54	61	61
Net Short-Term Capital	-21	-28	-54	-1	153	0	80	142	97	138	190	148
Total incl. IMF & Net ST	21	40	110	45	359	226	1,143	1,483	1,901	2,272	2,563	2,607

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	5.45	4.25	3.49	3.11	2.05	1.54
2. IDA as % of Total	3.14	8.97	9.11	10.43	11.12	13.23
3. IBRD+IDA as % of Total	8.58	13.22	12.60	13.55	13.17	14.77
Share of LT Debt Service						
1. IBRD as % of Total	8.79	13.09	19.87	10.63	11.00	9.53
2. IDA as % of Total	0.20	1.42	3.31	1.57	1.61	1.95
3. IBRD+IDA as % of Total	8.99	14.51	23.18	12.20	12.61	11.47
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	183.80	..	290.07	324.53	362.72	322.46
2. IMF Credit/Exports	8.38	..	8.62	8.39	9.56	8.25
3. Short-Term Debt/Exports	14.38	..	15.97	21.44	29.83	19.91
4. LT+IMF+ST DOD/Exports	206.57	..	314.67	354.36	402.10	350.62
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	..	..	87.06	98.81	95.12	87.14
2. IMF Credit/GDP	..	..	2.59	2.55	2.51	2.23
3. Short-Term Debt/GDP	..	..	4.79	6.53	7.82	5.38
4. LT+IMF+ST DOD/GDP	..	..	94.45	107.89	105.45	94.75
Debt Service /Exports						
1. Public & Guaranteed LT	18.29	..	10.00	20.83	22.39	19.34
2. Private Non-guaranteed LT	0.00	..	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	18.29	..	10.00	20.83	22.39	19.34
4. IMF Repurchases+Serv. Chgs.	0.38	..	2.32	2.50	1.19	1.49
5. Interest only on ST Debt	1.70	..	0.83	0.94	0.55	0.51
6. Total (LT+IMF+ST Int.)	20.36	..	14.30	24.26	24.13	21.35

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Guinea-Bissau

Guinea-Bissau is a small country on the West African coast with about 950,000 inhabitants. With an estimated 1988 per capita income of about US$160, the country is among the poorest in the world. The economy is characterized by a large traditional rural sector, producing primarily for subsistence. Partly for this reason, measurements of economic activity are unusually uncertain. Agriculture, fisheries and forestry account for about 90 percent of employment and an estimated 50 percent of GDP. Marketed output is largely confined to export crops, primarily cashews, groundnuts, and palm kernels; in 1989 cashews accounted for 50 percent of total exports. 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. Rice production has increased more recently, from 85,000 tons in 1983 to about 160,000 tons in 1989, and it is expected that the country will re-establish self-sufficiency by the early 1990s.

After independence in 1974, Guinea-Bissau faced the task of rebuilding its economy. The protracted liberation war dislocated one-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 was implemented, focusing on the manufacturing sector and neglecting 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, thereby fueling inflation. In the period 1980-82, the external situation was 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 external arrears accumulated.

Faced with a deteriorating situation, the government implemented a recovery program in late 1983. The program consisted of the devaluation of the Guinean peso, increases in producer prices, and liberalization of domestic trade. Due to a sharp deterioration in the prices of the country's major export products, as well as delays in the implementation of institutional reforms and the inability to control the fiscal deficit, the adjustment process lost momentum in 1985.

Recent Developments

Against the background of a deteriorating economic situation, the government prepared in early 1987 a comprehensive medium-term economic adjustment program in close cooperation with the World Bank and the IMF. The program's aims were to re-establish internal and external equilibria, stimulate growth, improve resource allocation, and normalize relations with foreign creditors. Performance has been generally positive. In 1987, government kept control over the fiscal and monetary situation, with the current budget deficit declining markedly compared to previous years, and a start was made in reorientating the public investment program away from commercial projects. However, in 1988 and 1989 there were slippages in meeting the monetary target, due in part to institutional weaknesses and lack of timely data to manage properly the budget and the credit program. The resulting liquidity overhang put pressure on prices and the exchange rate. Meanwhile, on structural policies, performance has been mixed. Public enterprise reform is proceeding rapidly after some start-up delays, while civil service reform has been slower than expected, partly due to government's concern about the ability of the economy to absorb dismissed civil servants.

Exchange Rate Policy. Through a steady depreciation, the official exchange rate has been brought broadly into line with its market value. Between May-1987 and April 1990, the Guinean peso

(PG) was devalued by about 710 percent in domestic currency terms, while the real official exchange rate is estimated to have depreciated by some 50 percent. The spread between the official and parallel rates has been reduced to about 30 percent on average, from 200 percent during the pre-adjustment period. This has resulted in increased profitability of the traded sector, the reallocation of exports from parallel to official channels, and the reduction of rent-seeking activities.

Trade and Price Liberalization. Import licenses for commercial imports are now issued automatically, except for a short negative list. Prices have been liberalized, with the exception of petroleum products.

Fiscal Policy. The marked improvement in fiscal performance during 1987-88 was reversed in 1989. During 1987-88 the current account deficit was reduced substantially to 4 percent of GDP, from 10 percent in 1986. Total tax and non-tax revenues more than tripled, as collection of income taxes improved and receipts from cashew export taxes increased, while current expenditures where kept in line with programmed levels. The number of civil servants was reduced according to government's targets. In 1989, however, the current account deficit increased to about 10 percent of GDP, owing largely to overruns in current expenditures. Poor revenues collection was exacerbated by delays in export of cashews. Moreover, the reduction in civil servant numbers was only 2.5 percent, compared to a target of 10 percent.

Money and Prices. Money, broadly defined increased by some 40 percent in 1989 compared to 70 percent in both 1987 and 1988. This was primarily due to expansion of credit to the private sector and to public enterprises, which increased by 37 percent in 1987, and by more than 100 percent in 1988 and 1989.[1] Meanwhile, net credit to the government declined substantially because the peso counterpart of foreign exchange disbursements under the structural adjustment program was not put into circulation, but was used by government to reduce its debt to the national bank. Available price data indicate an inflation rate of about 100 percent in both 1987 and 1988, and of about 70 percent in 1989.

Real Economy. The economy has responded well to the structural adjustment program. Led by a favorable supply response to trade and price liberalization measures, GDP grew by between 4 and 6 percent per year in the 1987-89 period. This was due to significant increases in rice, cashew, and palm kernel production, reflecting increases from both traditional small farmers and the commercial farmers, "ponteiros," and to the growth of private services. Real per capita private consumption grew by over one percent per year.

Balance of Payments. The current account deficit including official grants shrank from US$20 million in 1986 to US$13 million in 1987, but deteriorated to US$21 million in 1988 and to US$29 million in 1989. Performance in 1987 reflected a number of exceptional factors, including strong growth in agricultural exports, a decline in official imports, and a temporary improvement in the terms of trade. In 1988 a sharp reversal of the terms of trade and increased import volume and values more than offset the continued improvement in export volumes. In 1989 the worsening of the current account deficit reflected a continued deterioration in the terms of trade, delays in exporting one-third of the cashew crops and delays in receipts related to fisheries. The current account deficit during the period 1987-89 was covered by concessional loans and by the accumulation of arrears.

External Debt. Guinea-Bissau is one of the debt-distressed countries in Sub-Saharan Africa, since its debt service ratio is significantly over 30 percent. For the foreseeable future, Guinea-Bissau's external debt will continue to be a heavy burden. At end-1989, the stock of debt outstanding and disbursed amounted to about US$416 million equivalent, some 15 times the value of exports of goods and non-factor services. The pre-rescheduling debt service ratio excluding arrears was about 160 percent. While the government plans to contract new medium- and long-term loans only on concessional terms, approximately US$24 million was borrowed on commercial terms during 1987-89. To mobilize concessional assistance to support Guinea-Bissau's economic recovery and growth, a donors meeting co-sponsored by the World Bank and UNDP was held in May 1989. At that meeting, the Bank supported a proposal that all future public sector borrowings be on IDA equivalent terms or better. The government is seeking debt relief from its main creditors and has in this regard obtained debt relief from Paris Club members in 1987 and 1989. During the last Paris Club meeting, Guinea-Bissau obtained rescheduling at Toronto terms on arrears and debt service falling due between October 1989 and December 1990. However, as post-rescheduling debt service remained at over 40 percent of export earnings, new arrears have been accumulating.

Development Prospects

The government remains committed to a program of structural adjustment to bring the country back on a growth path. The main elements over the period to 1992 are: (a) to maintain a flexible exchange rate policy; (b) to stabilize the economy by pursuing a prudent monetary policy while strengthening the administrative capacity of the central bank and improving fiscal

1. Percentage changes in money are expressed in relation to the beginning-of-period stock.

performance by implementing a tax reform and strengthening budgetary controls; and (c) to promote productive private investment by improving commercial and development banking facilities and accelerating work on public enterprise reform, removing infrastructure bottlenecks, focussing the public investment program on areas of highest priority, and revising the investment code.

The implementation of Guinea-Bissau's structural adjustment program should place the country in a position to achieve sustained growth over the longer term. Guinea-Bissau's relatively generous natural resource endowment, particularly in arable land, provides a basis for optimism about the country's future now that the major distortions in the system of economic incentives have been eliminated and the macroeconomic balance is being restored. It is expected that continuation of the adjustment program would allow the economy to grow by almost 5 percent per year over the next five years. Agriculture is expected to be the decisive factor in this growth. Barring unexpected exogenous shocks, this sector is expected to grow at about 6 percent per year over the next five years, allowing for strong growth in agricultural exports and reduction in imports of food products, particularly rice. Government development expenditures are projected to remain at historical levels, focussing on infrastructure, health and education. Domestic and foreign private investments are expected to play an increasing role, continuing to concentrate on agriculture and agroindustries and starting ventures in light industries, fisheries, and minerals. Nevertheless, given the starting point as well as price prospects for exports, Guinea-Bissau will continue to be one of the poorest countries in the world, well into the twenty-first century.

GUINEA-BISSAU

Mid-1988 Population (thous.)	940
1988 Per Capita GNP in US$:	160

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	1.8	3.7	6.7	5.0
Net Indirect Taxes	..	4.9	6.1	3.3	3.1	..	..	..	..	..	..
Agriculture	..	42.9	44.3	47.4	45.7	47.0	..	-3.4	5.5	3.0	7.0
Industry	..	24.4	19.7	15.6	16.0	15.8	..	3.6	2.4	9.0	4.3
(of which Manufacturing)	..	..	..	..	..	..	..	..	..	..	..
Services	..	32.7	36.1	37.0	38.4	37.2	..	11.9	2.3	10.6	3.0
Resource Balance	..	-34.7	-35.6	-29.7	-40.2	-50.8	..	..	..	..	..
Exports of GNFS	..	6.1	8.4	14.5	16.8	15.2	..	6.2	-0.5	8.5	4.2
Imports of GNFS	..	40.7	43.9	44.2	57.0	66.0	..	-7.0	4.4	10.2	28.3
Total Expenditures	..	134.7	135.6	129.7	140.2	150.8	..	-2.6	4.5	7.7	13.2
Total Consumption	..	113.8	106.0	106.1	111.8	113.3	..	-5.1	5.2	4.9	6.7
Private Consumption	..	89.3	77.0	94.5	100.1	99.2	..	-5.7	5.4	4.6	4.2
General Government	..	24.5	29.0	11.7	11.7	14.1	..	-0.5	3.4	7.3	26.5
Gross Domestic Investment	..	20.9	29.6	23.6	28.5	35.6	..	7.0	2.5	20.4	39.0
Fixed Investment	..	..	..	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	-13.8	-6.0	-6.1	-11.7	-15.3	..	..	..	..	..
Net Factor Income	..	0.0	-0.6	-3.0	-2.3	-1.3	..	..	..	..	..
Net Current Transfers	..	0.0	0.0	-1.2	1.0	0.7	..	..	..	..	..
Gross National Saving	..	-13.8	-6.6	-10.4	-13.0	-15.9	..	..	..	..	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	63,964	67,266	92,340	98,567	103,540	..	1.8	3.7	6.7	5.0
Capacity to Import	..	8,156	6,249	13,387	13,257	13,295	..	-0.9	8.4	-1.0	0.3
Terms of Trade Adjustment	..	-2,508	-10,695	0	-1,272	-1,849	..	..	..	..	..
Gross Domestic Income	..	61,456	56,571	92,340	97,294	101,691	..	0.6	5.1	5.4	4.5
Gross National Product	..	63,964	66,918	89,563	93,737	97,954	..	1.5	3.3	4.7	4.5
Gross National Income	..	61,456	56,223	89,563	92,465	96,105	..	0.2	4.7	3.2	3.9

C. Price Indices	*1980*	*1985*	*(1987 = 100)* *1986*	*1987*	*1988*	*1989*	*Inflation Rates (% p.a.)* *1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	7.8	28.6	53.7	100.0	174.2	296.0	..	5.0	49.6	74.2	69.9
Implicit Expenditures Defl.	8.6	28.4	47.5	100.0	186.5	316.3	..	9.9	49.0	86.5	69.6

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	1.1	5.2	1.9
Labor Force	..	..	..
Gross Natl. Income p.c.	..	-4.8	2.8
Private Consumption p.c.	..	-10.4	3.5
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	-3.9	1.2
Marginal Savings Rates:			
Gross National Saving	..	114.9	-28.5
Gross Domestic Saving	..	113.4	-24.1
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	85.7	83.6	82.3	..
Industry	2.4	3.1	3.6	..
Services	11.9	13.3	14.1	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	Volume Index						Value at Current Prices (millions US$)					
	1980	1985	1986	1987	1988	1989	1980	1985	1986	1987	1988	1989
Groundnut	155.8	100.0	55.8	100.0	118.0	60.5	..	2	1	1	1	1
Cashewnuts	9.3	68.0	61.9	100.0	101.0	90.4	..	5	5	11	9	7
Palm kernels	67.4	28.1	85.4	100.0	110.0	85.3	..	1	1	1	1	1
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	4	3	2	5	5
Total Exports FOB	69.0	62.7	75.9	100.0	115.2	111.7	..	12	10	15	16	14
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	12	12	11	13	21
Fuel and energy	..	..	..	..	..	..	..	8	6	5	4	9
Other Consumer Goods	..	..	..	..	..	..	..	12	12	5	6	7
Other Intermed. Goods	..	..	..	..	..	..	..	18	14	11	13	14
Capital goods	..	..	..	..	..	..	..	9	15	19	28	29
Total Imports CIF	..	..	..	..	..	..	..	66	59	51	65	79

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	100.0	97.0	117.0	106.0	97.0
Merch. Imports Price Index	..	100.0	99.0	111.0	122.0	120.0
Merch. Terms of Trade	..	100.0	98.0	105.0	87.0	81.0

H. Balance of Payments	US$ millions (at current prices)					
	1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	..	18	18	24	26	26
Merchandise (FOB)	..	12	10	15	16	14
Non-Factor Services	..	7	8	9	10	12
Imports of Goods & NFS	..	85	74	73	88	111
Merchandise (FOB)	..	60	51	45	57	69
Non-Factor Services	..	26	22	28	30	42
Resource Balance	..	-67	-56	-49	-62	-85
Net Factor Income	..	-5	-7	-8	-5	-4
(interest per DRS)	1	2	2	5	5	5
Net Current Transfers	0	-3	-2	-2	2	1
(workers' remittances)	..	..	..	..	2	1
Curr. A/C Bal. before Off. Transf.	..	-76	-64	-59	-65	-88
Net Official Transfers	..	31	44	46	44	58
Curr. A/C Bal. after Off. Transf.	..	-45	-20	-13	-21	-29
Long-Term Capital Inflow	..	63	18	64	34	32
Direct Investment	..	..	..	..	..	..
Net LT Loans (DRS data)	66	57	15	41	23	31
Other LT Inflow (Net)	..	6	3	23	12	3
Total Other Items (net)	..	-1	-2	-40	-1	-10
Net Short Term Capital	..	9	5	-37	0	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	..	-10	-6	-4	-1	-10
Changes in Net Reserves	0	-17	4	-11	-12	8
Net Credit from the IMF	0	-1	-1	2	-1	2
Other Reserves Changes	0	-16	5	-13	-11	6
As Share of GDP:						
Resource Balance	..	-42.5	-24.3	-29.6	-39.9	-50.1
Interest Payments	0.9	1.2	0.9	3.0	3.3	3.1
Current Account Balance	..	-48.1	-27.7	-35.4	-42.3	-51.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	..	..	30	10	15	..
Reserves incl. Gold (mil. US$)	0	0	30	10	15	0
Official X-Rate (LCUs/US$)	33.81	159.62	373.30	559.33	1111.06	1811.42
Index Real Eff. X-R Base 1980	..	..	..	..	..	..
GDP (millions of current US$)	105	158	126	165	155	169

I. Budget (specify level)	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Current Receipts	..	11.7	6.6	13.6	13.6	13.8	..	..	77.9	6.4	6.4
Current Expenditures	..	26.3	14.2	16.8	17.6	23.4	..	..	-0.1	8.9	43.3
Current Budget Balance	..	-14.6	-7.6	-3.2	-4.0	-9.6	..	..	-65.1	19.5	181.8
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	36.8	18.6	19.4	32.6	38.2	..	..	-18.5	1.0	15.7
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-51.4	-26.2	-22.1	-38.2	-51.5	..	..	-18.4	28.5	22.8
Official Capital Grants	..	21.7	13.3	17.7	23.5	34.4	..	..	-16.8	-26.2	61.8
External Borrowing (net)	..	20.0	8.3	2.9	13.0	5.5	..	..	..	..	..
Domestic Non-Bank Financing	..	1.2	0.1	..	..	..	..	..	..	..	..
Domestic Bank Financing	..	6.7	2.6	-6.1	-7.7	-5.3	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	66	57	15	41	23	31	126	260	296	388	389	416
Official Creditors	49	39	18	36	22	31	90	183	214	291	301	391
Multilateral	24	21	13	28	20	23	29	100	123	169	179	199
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	4	15	10	19	18	21	5	44	59	87	100	121
Bilateral	25	18	5	9	2	8	61	83	91	121	122	192
Private Creditors	18	18	-3	5	1	1	36	77	83	98	88	25
Suppliers	2	-1	-3	0	1	1	10	10	8	3	3	22
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	66	57	15	41	23	31	126	260	296	388	389	416
IMF Credit	0	-1	-1	2	-1	2	1	3	2	5	3	5
Net Short-Term Capital	..	9	5	-37	0	0	5	41	23	30	32	21
Total incl. IMF & Net ST	..	65	18	6	21	33	132	304	322	423	424	442

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	3.74	17.04	19.84	22.48	25.75	29.02
3. IBRD+IDA as % of Total	3.74	17.04	19.84	22.48	25.75	29.02
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	9.52	5.38	8.14	10.00	17.98
3. IBRD+IDA as % of Total	0.00	9.52	5.38	8.14	10.00	17.98
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	..	1674.01	1625.10	1423.81	1540.37
2. IMF Credit/Exports	..	..	12.99	18.83	10.99	18.15
3. Short-Term Debt/Exports	..	..	132.20	124.27	116.48	77.04
4. LT+IMF+ST DOD/Exports	..	..	1819.21	1768.20	1551.28	1635.56
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	119.32	164.83	128.67	235.27	251.53	245.60
2. IMF Credit/GDP	1.33	1.97	1.00	2.73	1.94	2.89
3. Short-Term Debt/GDP	4.84	26.06	10.16	17.99	20.58	12.28
4. LT+IMF+ST DOD/GDP	125.49	192.85	139.83	255.98	274.04	260.78
Debt Service /Exports						
1. Public & Guaranteed LT	..	..	52.54	35.98	25.64	32.96
2. Private Non-guaranteed LT	..	..	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	..	..	52.54	35.98	25.64	32.96
4. IMF Repurchases+Serv. Chgs.	..	..	7.34	2.09	5.13	3.70
5. Interest only on ST Debt	..	..	9.04	5.44	0.37	3.70
6. Total (LT+IMF+ST Int.)	..	..	201.13	43.51	31.14	42.22

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Guyana

Guyana's economy is mainly based on the production and export of bauxite, sugar and rice. The greater part of the agricultural activity is concentrated along the coastal belt of the country (where most of the population resides), whereas the extensive mineral and timber resources within the densely tropical hinterland—with the exception of bauxite mining—remain largely unexploited. Because of the country's topography and uneven distribution of its small population, the country's infrastructural needs are substantial on a per capita basis. Guyana's population, estimated at 799,000 in mid-1988, has been declining over the past decade as a result of a low birth rate and continuous emigration. Economic activity has been retarded by a difficult physical environment; by sharp fluctuations in output, stemming from the vulnerability of the economy to exogenous factors such as weather and fluctuations in international prices and demand; and by the government's failure to address economic issues adequately. Over the past 15 years, the growth of public expenditures, combined with reduced revenues from the bauxite and sugar industries, led to mounting fiscal deficits and a rapid buildup of external debt. In addition, the growth prospects of the private sector, over the same period, was severely limited by extensive administrative controls and high taxation. This led to a flight of skills and capital and the growth of a "grey economy" outside the official economy. Since 1975, real recorded GDP per capita has fallen by one-quarter; production and exports are roughly 20 percent below their corresponding levels during the mid-1970s. Guyana is today a low-income country with a per capita GNP of US$310 (1989).

Recent Economic Developments

Starting in 1984 the government undertook a number of measures in an attempt to increase output and exports and to reduce domestic and external imbalances in the economy. The scope of domestic price controls was reduced, public sector prices were increased to reflect devaluations and efforts were made to rehabilitate the bauxite and sugar industries. A number of other important public enterprises were reorganized and restructured. Measures were also taken to curb central government spending (non-interest current expenditure was reduced from 40 percent of GDP in 1985 to 35 percent in 1988). Although these measures were in the right direction, they were insufficient to deal with the severity of the problems confronting the economy.

In mid-1988, the government outlined proposed measures for addressing domestic and external problems in the economy over the medium term. In early August 1988, price controls were removed from a number of items except for petroleum products, transportation, rice, sugar and a few other essential items. Import prohibitions were also removed on all items, except for food products on grounds of the national objective of food security, through self-sufficiency. In addition, the licensing of "no funds" imports, i.e., those not involving the use of official foreign exchange, was liberalized beginning September 1, 1988, so as to allow private individuals to import, without licenses, items for their personal use. In the fiscal area, some measures to raise tax revenues were implemented and action was taken to close down two loss-making public enterprises. In July 1988, the government issued a document setting out incentives available to the private sector and in August 1988, Guyana joined MIGA. On the sectoral front, the government took a number of steps to improve performance in the bauxite industry. These included securing assistance from the Sysmin Facility of the European Community to rehabilitate the industry and discussions with foreign companies on possible joint ventures. In February 1989, Reynolds International signed an agreement with the government to commence private mining operations in the bauxite sector.

Building on the measures adopted since mid-1988, the government in early 1989 announced a major economic recovery program aimed at arresting a further decline of the economy and restoring it on a path of sustainable growth. As a first step, the government has been working towards a normalization of its relations with the international community. The main objectives of the government's economic recovery program are to achieve a real GDP growth averaging about 4 percent per year over the medium term, reduce external and internal imbalances in the economy, incorporate the parallel economy into the official economy and normalize Guyana's financial relations with the external creditors. In April 1989, the government embarked on a program which required a 230 percent devaluation (in Guyana dollar terms) and complementary price adjustments. A Support Group chaired by Canada has been assisting Guyana to obtain the external financing necessary to support its economic recovery program.

The Paris Club meeting of May 1989 agreed to reschedule US$195 million of Guyana bilateral debt on favorable "Venice terms," i.e., rescheduling over 20 years, including 10 years' grace period. Favorable rescheduling terms were also received from Trinidad and Tobago outside the Paris Club. Arrears to that country have been rescheduled on the basis of 20 years' maturity and 10 years' grace period. Likewise, the Caribbean Multilateral Clearing Facility (CMCF) which ceased to operate in 1983 because of Guyana arrears, has agreed to a similar arrangement to be applied to a debt of US$146.5 million accumulated as at the end of 1988. The balance of US$397 million, which includes London Club reschedulings, is to be carried out in 1990.

The program has eased some of the long-standing price distortions in the goods markets and in the foreign exchange market. The parallel rate for foreign exchange came down from G$60 per U.S. dollar to G$48 per U.S. dollar after the April 1989 devaluation—owing to a sizable reduction in purchasing power and in domestic liquidity. But the cut in real wages of at least 25 percent combined with increased transportation costs affected the supply of labor, leading to strikes in the critical sugar and bauxite industries, and contributing to absenteeism, resignations and out-migration. As a result of the production losses in these sectors, the downturn in production in other sectors, and associated production losses in the service sectors, real GDP declined by about 3.5 percent in 1989, thus compounding the decline of 1.4 percent witnessed in 1988. The setback in economic performance has impacted seriously on the public finances and on the balance of payments.

The foreign exchange situation remained extremely difficult during 1989 as a result of the strike losses, compounded by slippages in the implementation of commodity assistance from bilateral sources, from a programmed US$41 million to US$27 million. Net exports declined from an original target of US$260 million to US$198 million. This led to a major compression of non-project imports of at least US$50 million, and became a serious impediment to growth.

The program, supported by a modest amount of external assistance pending clearance of arrears, was implemented with considerable difficulty. In particular, a number of slippages in the exchange rate, pricing and fiscal areas occurred; central government current expenditure commitments exceeded program targets and revenue collections were weak. To help offset these shortfalls, additional measures were adopted in September and October 97an increase in electricity tariffs, 100 percent increase in sugar prices and the introduction of a gasoline tax equivalent to US$0.30 per imperial gallon. The main short-term issue concerns the adequacy of the exchange rate given the still large differential between the official and parallel rates. The government has found it difficult to deal with this issue given the steep drop in real wages which has already occurred and the lack of external resources to support further exchange rate action. Nevertheless, in June 1990 the Government devalued the Guyana dollar in the official market (from G$33/US$ to G$45/US$) and shifted non traditional exports and non essential imports to the legalized parallel market (at G$80/US$). A possible further reduction in the differential between the free market (parallel) cambio rate and the official rate is being reviewed in the context of a program for 1990.

Development Issues and Prospects

Macroeconomic Issues. Guyana economy continues to face major structural imbalances. These stem from the failure to correct, until recently, an overvalued exchange rate and price distortions. Guyana's economic problems are also attributable to an overextended and inefficient public sector, accounting for the significant deterioration of public finances. The lack of a clear role for the private sector has also constrained economic growth. At the same time, the country's capital stock has deteriorated and the state of disrepair of its physical infrastructure has resulted in serious bottlenecks. The decline in living standards over the years has led to an exodus of qualified personnel and to a shortage of skilled labor and experienced managers. Thus, major weaknesses in management and project implementation remain in the public sector and there is a need to continue the rationalization effort.

Sectoral Issues. A number of sectoral issues also need to be addressed in order to increase output, raise export earnings and promote a recovery of the economy. In this regard, agriculture, which currently accounts for about 25 percent of GDP and over 45 percent of merchandise exports, requires special focus since it is expected to continue to generate a substantial portion of Guyana's net foreign earnings over the medium-term and to remain the mainstay of the economy for the foreseeable future. Specific issues to be addressed include: (a) measures to further improve performance in the sugar subsector through cost reduction, rationalization of milling capacity, organizational improvement, maintenance of adequate crop (ratoon) renewal as well as measures to meet the rehabilitation and new investment needs of the sector; (b) the continued provision of incentives (pricing and improved access to foreign exchange), input supplies (fertilizers, herbicides and pesticides) and the maintenance of adequate research, extension services and water management to facilitate increased productivity and production in rice; and (c) the provision of adequate infrastructural and marketing support to facilitate increased production of rice and other crops, as well as increased production in the fishery and forestry subsectors. In the mining sector, major efforts are required to further address the rehabilitation needs of the bauxite industry which had hitherto accounted for about 35 percent of merchandise exports and about 9 percent of GDP. In the manufacturing sector, policies are needed to promote growth of nontraditional activities which currently account for less than 10 percent of GDP. These include the continued implementation of an appropriate exchange rate regime, further deregulation of the economy, and the provision of infrastructural support.

GUYANA

Mid-1988 Population (thousands)	799
1988 Per Capita GNP in US$:	350

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.9	0.9	-2.4	-1.4	-3.5
Net Indirect Taxes	10.3	10.6	11.4	12.6	13.5	..	..	..	..	..	..
Agriculture	21.6	16.5	20.7	25.5	21.2	..	1.2	1.2	-0.7	-8.1	..
Industry	31.4	29.7	31.7	27.2	26.9	..	2.4	-0.8	-5.5	-3.1	..
(of which Manufacturing)	11.8	10.0	10.7	12.6	13.1	..	2.6	5.1	-6.2	-1.2	..
Services	36.7	43.2	36.2	34.7	38.3	..	4.4	2.8	-1.0	-0.5	..
Resource Balance	-2.4	-16.7	-10.5	-13.6	-4.4	-6.8	..	..	..	..	..
Exports of GNFS	55.3	52.2	69.1	76.4	62.9	33.7	0.5	-3.1	-3.0	-2.0	..
Imports of GNFS	57.7	68.9	79.6	90.0	67.3	40.5	1.7	-5.4	-3.8	6.2	..
Total Expenditures	102.4	116.7	110.5	113.6	104.4	..	3.8	-2.4	-3.2	5.0	..
Total Consumption	80.2	89.5	80.7	78.3	83.5	..	7.8	-1.0	-2.4	9.8	..
Private Consumption	65.2	64.7	51.8	62.6	55.4	..	6.3	-4.2	1.9	12.5	..
General Government	15.0	24.8	28.9	15.7	28.2	..	12.1	4.8	-12.9	-1.7	..
Gross Domestic Investment	22.2	27.2	29.8	31.9	21.1	..	-1.3	-4.6	-4.9	-7.1	..
Fixed Investment	19.3	24.0	26.8	27.0	..	..	..	-9.3	-6.8	..	..
Changes in Stocks	2.9	3.2	3.0	4.9	..	..	..	..	..	..	..
Gross Domestic Saving	19.8	10.5	19.3	18.3	16.7	..	-6.6	-0.5	1.6	27.5	..
Net Factor Income	-6.9	-4.9	-7.0	-24.9	-22.9	-13.9	..	..	..	..	..
Net Current Transfers	-0.6	-0.3	0.2	1.3	0.6	2.7	..	..	..	..	..
Gross National Saving	12.3	5.3	12.5	-6.5	-6.2	..	-6.6	0.2	..	..	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	3,044	3,743	4,192	3,505	3,458	3,337	2.9	0.9	-2.4	-1.4	-3.5
Capacity to Import	4,627	4,579	4,021	2,676	3,127	..	0.7	-5.2	-2.6	16.8	..
Terms of Trade Adjustment	290	246	432	0	504	..	..	..	..	..	..
Gross Domestic Income	3,334	3,989	4,624	3,505	3,962	..	2.8	-1.6	-2.2	13.0	..
Gross National Product	2,915	3,646	4,092	2,634	2,652	2,515	3.3	0.9	-5.4	0.7	-5.2
Gross National Income	3,205	3,892	4,524	2,634	3,156	..	3.2	-1.6	-5.0	19.8	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	29.4	72.0	77.7	100.0	139.9	..	3.0	12.1	19.8	39.9	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	36.0	56.4	61.8	100.0	119.7	217.7	4.5	8.7	16.1	19.7	81.9
Implicit Expenditures Defl.	31.8	57.9	58.0	100.0	103.3	..	4.1	12.5	16.1	3.3	..

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	..	0.8	0.7	
Labor Force	..	..	..	
Gross Natl. Income p.c.	..	-6.2	-5.6	
Private Consumption p.c.	..	-5.9	1.2	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	0.6	-6.0	1.6	
Marginal Savings Rates:				
Gross National Saving	-22.1	85.5	61.5	
Gross Domestic Saving	-27.0	85.3	32.3	
ICOR (period averages):	..	..	..	
Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	35.0	30.2	26.8	..
Industry	27.9	27.6	25.8	..
Services	37.0	42.1	47.4	..
Total	100.0	100.0	100.0	100.0

	Volume Index						*Value at Current Prices (millions US$)*					
E. Merchandise Exports	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
X.MET.X	..	..	..	..	..	..	..	99	82	86	80	..
X.FOOD.SUGAR	..	..	..	..	..	..	..	66	83	90	75	..
X.FOOD.RICE	..	..	..	..	..	..	..	13	11	16	15	..
X.TIM	..	..	..	..	..	..	..	4	4	5	3	..
Manufactures	..	..	..	..	..	..	..	21	37	35	22	..
Residual	..	..	..	..	..	..	..	11	1		14	198
Total Exports FOB	..	..	..	..	..	..	..	214	217	232	209	198
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	5	..	..	6	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	7	..	..	16	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	66	..	..	65	..
Total Imports CIF	..	..	..	..	..	..	..	209	260	262	216	224

G. Merchandise Terms of Trade	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

	US$ millions (at current prices)					
H. Balance of Payments	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Exports of Goods & NFS	409	262	247	274	260	245
Merchandise (FOB)	389	214	217	232	209	198
Non-Factor Services	20	48	30	42	51	47
Imports of Goods & NFS	494	313	319	323	279	294
Merchandise (FOB)	386	209	260	262	216	225
Non-Factor Services	107	104	59	61	63	69
Resource Balance	-85	-51	-72	-49	-18	-49
Net Factor Income	-43	-40	-85	-89	-95	-101
(interest per DRS)	27	12	16	14	12	7
Net Current Transfers	1	-2	4	5	2	7
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-127	-93	-146	-128	-101	-137
Net Official Transfers	-2	-3	6	6	10	7
Curr. A/C Bal. after Off. Transf.	-129	-97	-140	-122	-90	-130
Long-Term Capital Inflow	74	-36	-3	-11	-18	-45
Direct Investment	1	2	-12	5	5	5
Net LT Loans (DRS data)	55	42	49	28	6	-4
Other LT Inflow (Net)	19	-80	-40	-45	-28	-46
Total Other Items (net)	11	137	146	133	104	186
Net Short Term Capital	11	142	292	265	208	368
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	0	-5	-146	-133	-104	-182
Changes in Net Reserves	43	-5	-3	1	4	-12
Net Credit from the IMF	33	8	9	14	-5	-7
Other Reserves Changes	11	-12	-11	-13	10	-5
As Share of GDP:						
Resource Balance	-14.4	-11.1	-14.1	-13.6	-4.4	-18.5
Interest Payments	4.5	2.5	3.2	3.8	2.9	2.7
Current Account Balance	-21.4	-20.4	-28.8	-35.5	-24.3	-51.0
Memorandum Items:						
Reserves excl. Gold (mil. US$)	13	6	9	8	4	..
Reserves incl. Gold (mil. US$)	13	6	9	8	4	0
Official X-Rate (LCUs/US$)	2.55	4.25	4.27	9.76	10.00	27.16
Index Real Eff. X-R Base 1980	100.00	151.49	143.65	73.96	92.91	72.60
GDP (millions of current US$)	591	459	508	359	414	267

Budget	Share of GDP (%) 1980	1984	1985	1986	1987	1988	Growth Rates 1980-85	1986	1987	1988
A. Total Revenue	30.8	43.1	41.8	48.2	35.4	41.6	10.6	28.4	18.6	38.7
B. Total Expenditure	62.0	86.8	96.2	103.5	84.7	78.9	20.0	19.7	32.3	9.9
C. Overall Balance	-31.2	-43.6	-54.4	-55.3	-49.3	-37.3	36.0	12.9	44.2	-10.8
1. Official Capital Grants	..	..	..	..	..	..	..	..	..	..
2. External Borrowings	6.2	2.8	5.5	5.2	6.7	5.7	60.0	4.9	107.6	1.2
3. Domestic Financing	..	..	..	..	..	..	65.9	13.8	37.6	-12.7

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J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	55	42	49	28	6	-4	571	750	826	916	905	1,001
Official Creditors	49	43	27	25	6	2	344	574	624	699	690	833
Multilateral	40	23	23	19	5	0	110	265	309	360	351	404
of which IBRD	2	0	-1	0	0	-1	36	65	78	96	89	85
of which IDA	2	1	5	0	0	1	18	27	34	37	36	35
Bilateral	9	20	4	6	2	2	233	309	315	339	340	429
Private Creditors	6	-1	22	4	-1	-6	228	176	202	218	215	168
Suppliers	-1	2	28	8	0	-3	66	22	53	66	65	38
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	55	42	49	28	6	-4	571	750	826	916	905	1,001
IMF Credit	39	-1	-1	0	0	-1	86	91	100	116	110	106
Net Short-Term Capital	11	142	292	265	208	368	110	612	657	646	633	608
Total incl. IMF & Net ST	104	183	340	293	214	362	767	1,453	1,583	1,678	1,647	1,715

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	6.28	8.68	9.46	10.46	9.79	8.50
2. IDA as % of Total	3.17	3.62	4.08	3.99	3.92	3.49
3. IBRD+IDA as % of Total	9.45	12.30	13.54	14.46	13.71	11.99
Share of LT Debt Service						
1. IBRD as % of Total	5.35	27.59	17.48	0.00	0.00	4.40
2. IDA as % of Total	0.14	1.72	1.05	2.54	2.05	1.81
3. IBRD+IDA as % of Total	5.50	29.31	18.53	2.54	2.05	6.22
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	139.17	..	333.75	333.72	347.37	408.66
2. IMF Credit/Exports	20.95	..	40.50	42.24	42.23	43.41
3. Short-Term Debt/Exports	26.80	..	265.64	235.11	242.80	248.10
4. LT+IMF+ST DOD/Exports	186.91	..	639.89	611.07	632.40	700.16
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	96.61	163.45	162.57	255.07	218.68	374.22
2. IMF Credit/GDP	14.54	19.89	19.73	32.29	26.58	39.75
3. Short-Term Debt/GDP	18.60	133.44	129.39	179.70	152.85	227.19
4. LT+IMF+ST DOD/GDP	129.75	316.78	311.69	467.06	398.12	641.16
Debt Service /Exports						
1. Public & Guaranteed LT	16.83	..	11.56	8.59	7.49	15.76
2. Private Non-guaranteed LT	0.00	..	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	16.83	..	11.56	8.59	7.49	15.76
4. IMF Repurchases+Serv. Chgs.	4.68	..	0.57	0.11	0.04	1.92
5. Interest only on ST Debt	0.12	..				
6. Total (LT+IMF+ST Int.)	21.63	..	12.13	13.15	18.16	19.72

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Haiti

Haiti is a small, densely populated, predominantly rural, and open economy. Its 6.3 million inhabitants occupy 28,000 square kilometers, at the western end of the island of Hispaniola, and are among the poorest in the world, with a per capita GNP of US$390 (1988). Their absolute poverty is unmatched in the Western Hemisphere, as is their infant mortality rate of 117 per 1,000 live births and their adult illiteracy rate of some 65 percent. Declining rural incomes have led to substantial rural-urban and international migration. The total population is growing at 1.8 percent per annum, net of emigration of 0.5 percent, while the urban population is expanding by 4 percent. Family planning efforts, largely by non-governmental organizations, have yet to show widespread results. About 25-30 percent of the labor force is unemployed.

Three-quarters of the population live in the rural areas and ultimately depend on agriculture, the output of which has increased little since the early 1970s. Physical production per capita has fallen steadily as relentless population pressure has forced peasants to cultivate even more marginal hillside land. A shortage of cultivable land, coupled with insecurity of tenure and the demand for wood for energy, has generated an unrelenting process of deforestation and soil erosion. In recent decades, output and employment have shifted toward urban activity. Agriculture now accounts for only one-third of GDP compared with one-half in the early 1950s.

In the second half of the 1970s, economic growth, averaging 5.3 percent per annum, allowed for some improvement in real per capita income. This was mainly due to an increase in public investments supported by foreign aid, and a large expansion in Haiti's export assembly industry, the primary attraction of which was the freely determined structure of wages in Haiti.

Despite the expansion of manufacturing exports, the export base remains narrow, leaving Haiti vulnerable to exogenous shocks. The assembly industry produces a limited range of products—electronics, clothing and sporting goods—yet accounts for over 50 percent of all exports. Coffee, which accounts for about 20 percent of exports, is particularly sensitive to world price fluctuations and to hurricanes. Some gold and widespread marble deposits constitute potential exports, as yet undeveloped. Tourism has declined as a result of publicity concerning increased health risks, and political unrest.

Recent Economic Developments

In 1980-85, Haiti pursued policies that led to an inefficient and inequitable economy. Fiscal and trade regimes employed instruments set at excessively high levels and there were restrictive institutions and practices, such as trade monopolies and discriminatory administration of investment promotion schemes. Large portions of public revenues and public borrowing were deployed to administer the system and to undertake capital expenditures that were uneconomic or unaccounted for, rather than to expand efficiently the country's productive capacity or provide essential public services.

The economic distortions and the financial drain inherent in Haiti's policies in 1980-85 resulted in very significant erosions of the country's income, living standards and finances. To reform the economic system, economic policies from March 1986 to November 1987 focused on reform of taxes, public expenditure, public enterprises, competition and industrial incentives, and agricultural pricing. Total expenditure and taxes were cut by about 2 percent of GDP, and expenditure was reallocated such that education and health spending were increased by over 20 percent in real terms. Taxes on basic food items were reduced, helping to lower prices and raise private consumption among the low-income people. Income taxes were simplified, top marginal rates lowered and measures to strengthen tax collection initiated. The public investment program was pruned and concentrated on completing priority ongoing projects while the public sector's debt to the domestic banking system was reduced. Trade monopolies, both public and private, were dismantled. Of the five public enterprises in industry, the two that were uneconomical were closed. In a major reform of the trade regime, all but seven of the 111 quantitative restrictions on imports were eliminated. The remaining seven products, representing less than 20 percent of imports, became subject to import licensing without formal ceilings. Further, specific tariffs were all replaced by ad valorem ones, and the general level of protection was reduced drastically. The export tax on coffee was phased out and other agricultural export taxes were abrogated.

The above reform measures began to stabilize and restructure the economy during 1986-87. However, economic growth averaged slightly under 1 percent per year due to the collapse of coffee export volume and prices, and, in the latter half of 1987, disturbances related to the electoral process. Also, domestic agriculture and industry, already under expected stress from trade liberalization, had to endure added competition from the upsurge of contraband imports, which intensified when provincial ports, formerly closed, were opened up to international traffic. The momentum of the original economic reforms was lost, however, owing to several political crises, which began in the second half of 1987 and have since then compounded the country's economic and financial situation. Economic developments from 1988 on have been characterized by work stoppages, investors' uncertainty, shortfalls in public revenues, and the suspension of vital external assistance.

In 1988, Haiti's real GDP is estimated to have grown by only 0.5 percent, a decline in per capita terms of more than one percent. Although service sectors improved their economic performance, their growth was not sufficient to offset the decline, for a third consecutive year, in value added in agriculture. Investment activities also declined. Consumer prices rose by 15 percent in the twelve-month period ending September 1989, up from about 9.5 percent a year earlier. At the same time, the premium on the U.S. dollar in the parallel market rose from about 20 percent in September 1988 to over 35 percent in September 1989.

The public sector accounts continued under stress in 1988 as in 1987. Although the overall public sector deficit (before grants) remained constant as a percent of GDP (5.7 percent), the composition of its financing changed in 1988; external sources accounted only for a fourth of the financing of the deficit. In 1987, external sources accounted for almost a third of the requisite external financing. Moreover, in 1988 both total public sector receipts and expenditures decreased by almost 1 percent of GDP each. The balance of payments also recorded a further deterioration in the country's external financial position in 1988 relative to the 1987. The value of both exports and imports of goods and services decreased. As a result, the current account deficit of the balance of payments remained at about 7 percent of GDP in 1988.

To correct the above imbalances, the government adopted an economic program for fiscal 1990 in an effort to reduce inflationary pressures, strengthen the balance of payments, and help reverse the decline in investment and economic activity. The government adopted measures to increase fiscal revenues, introduced new controls in the public enterprises (including their wage bill), and raised wheatflour and millfeed prices. The government also removed the ceiling on deposits and lending rates and increased reserve requirements of commercial banks (from 37 percent to close to 44 percent). The government also authorized commercial banks and most exchange houses to operate freely in the parallel market and reduced the surrender requirement for export receipts at the official exchange rate from 50 percent to 40 percent. At the same time, commercial banks were authorized to accept deposits in foreign currency.

Development Issues and Prospects

The political, economic and financial difficulties of 1988-89 notwithstanding, thus far Haiti has kept in place the basic fiscal and trade reforms that were implemented in 1986-87. As the country's constitutional and political situation improves, Haiti will need to refocus efforts to eliminate external imbalances and strengthen its tradeable goods sector; improve revenue mobilization and expenditure programming; and rationalize public sector employment and enterprises, especially the various public utilities.

In a longer-term perspective, Haiti also needs to address its many pressing development problems, notably its critical situation in health and nutrition, undeveloped human resources, poor agricultural performance, and deteriorating natural environment. These problems, moreover, must be approached with a due sense of innovation and urgency: otherwise, they will become unmanageable.

Given the severity of Haiti's development problems and the constraints imposed by low-income levels on the potential for generating domestic savings, the success of domestic efforts will be severely limited without the provision of external support. Hence, as Haiti itself acts to consolidate its recent economic reforms, external assistance, in the form of concessional aid, will remain essential to promoting the country's economic and social development.

HAITI

Mid-1988 Population (mils.)	6
1988 Per Capita GNP in US$:	360

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)/1				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	1.7	4.3	-0.2	0.5	2.2
Net Indirect Taxes	..	..	..	8.4	8.0	..	..	..	..	..	..
Agriculture	..	..	..	..	31.3	..	-0.3	1.6	-0.2	0.2	1.0
Industry	..	..	..	..	38.0	..	4.8	8.6	-1.8	0.3	5.1
(of which Manufacturing)	..	..	..	..	14.5	..	3.0	9.7	-2.4	0.0	0.0
Services	..	..	..	..	30.7	..	2.5	4.4	0.6	0.8	1.6
Resource Balance	-5.0	-4.7	-8.9	-7.7	-6.0	-5.8	..	..	..	..	..
Exports of GNFS	12.9	12.3	21.6	12.4	12.6	12.9	8.7	10.6	-4.7	3.3	3.6
Imports of GNFS	17.9	17.0	30.5	20.0	18.6	18.7	8.1	13.7	-4.8	-6.1	2.2
Total Expenditures	105.0	104.7	108.9	107.7	106.0	..	1.9	5.1	-0.5	-1.1	2.0
Total Consumption	98.1	88.8	91.9	95.2	96.3	..	1.1	4.2	0.1	1.9	1.9
Private Consumption	90.2	80.3	81.9	85.4	85.6	..	0.9	4.0	0.3	2.8	2.1
General Government	7.9	8.5	10.1	9.8	10.7	..	3.1	5.4	-1.4	-6.5	0.0
Gross Domestic Investment	6.9	15.9	16.9	12.5	9.7	..	14.4	12.9	-5.1	-23.4	3.2
Fixed Investment	..	..	..	12.5	9.7	..	15.4	..	-9.1	-23.4	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	1.9	11.2	8.1	4.8	3.7	..	24.0	12.8	-4.1	-27.3	10.2
Net Factor Income	-1.5	-0.8	-1.1	-4.4	-1.1	..	..	..	..	..	..
Net Current Transfers	0.0	-0.9	3.6	2.6	2.6	2.5	..	..	..	..	..
Gross National Saving	0.4	9.6	10.5	3.0	5.2	..	..	..	6.3	59.5	43.3

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	7,591	8,521	11,679	11,235	11,288	11,533	1.7	4.3	-0.2	0.5	2.2
Capacity to Import	593	948	2,544	1,388	1,432	1,483	8.0	14.2	-4.2	3.2	3.6
Terms of Trade Adjustment	24	-101	-15	0	-2	-1	..	..	..	..	..
Gross Domestic Income	7,615	8,421	11,663	11,235	11,286	11,531	1.7	4.7	-0.1	0.5	2.2
Gross National Product	6,760	7,875	10,899	10,739	11,137	11,398	1.8	4.2	0.4	3.7	2.3
Gross National Income	6,784	7,774	10,883	10,739	11,136	11,397	1.8	4.7	0.5	3.7	2.3

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	70.8	109.3	112.9	100.0	104.1	..	4.0	8.8	5.2	4.1	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	62.6	90.5	100.4	100.0	110.6	110.2	4.0	8.1	7.9	10.6	-0.3
Implicit Expenditures Defl.	62.6	92.4	100.3	100.0	110.6	..	3.9	7.8	7.5	10.6	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.1	1.8	1.8
Labor Force	..	..	..
Gross Natl. Income p.c.	-0.3	2.8	-1.3
Private Consumption p.c.	-1.2	2.2	-1.5
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	4.7	3.2	22.9
Marginal Savings Rates:			
Gross National Saving	80.6	13.3	167.5
Gross Domestic Saving	87.4	-0.5	134.1
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	77.1	73.0	70.0	..
Industry	6.8	7.5	8.3	..
Services	16.1	19.5	21.7	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.BEV.COFFEE	207.9	147.0	138.0	100.0	139.1	141.8	91	49	58	34	39	41
X.MAN.TEXT	..	..	..	..	..	..	68	..	..	163	..	..
X.OAGRI	840.3	213.4	141.2	100.0	167.2	184.0	28	7	5	6	8	9
X.BEV.COCOA	79.3	124.1	96.5	100.0	96.5	106.2	5	7	5	5	4	5
Manufactures	72.2	123.8	107.5	100.0	99.4	104.3	77	127	130	132	138	144
Residual	246.3	32.5	101.2	100.0	81.0	85.0	-43	27	18	-139	18	18
Total Exports FOB	142.2	112.1	110.2	100.0	104.6	109.4	226	217	216	201	207	217
F. Merchandise Imports												
Food	30.7	53.8	76.2	100.0	90.2	91.1	62	86	69	70	70	74
Fuel and energy	56.0	105.5	101.6	100.0	113.0	115.0	61	64	51	50	46	45
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	50	50
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	..	..	..	64	65
Total Imports CIF	22.2	84.8	98.6	100.0	109.9	112.8	334	334	298	318	300	309

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	79.1	96.3	97.5	100.0	98.5	98.9
Merch. Imports Price Index	473.9	124.2	95.3	100.0	85.8	86.3
Merch. Terms of Trade	16.7	77.8	102.6	100.0	114.8	114.7

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	306	337	292	309	252	318
Merchandise (FOB)	216	223	191	198	157	232
Non-Factor Services	90	114	102	111	95	87
Imports of Goods & NFS	481	558	475	503	475	474
Merchandise (FOB)	319	345	303	308	285	278
Non-Factor Services	162	214	172	195	189	196
Resource Balance	-175	-221	-183	-194	-223	-155
Net Factor Income	-14	-20	-16	-22	-24	-21
(interest per DRS)	5	7	8	9	8	9
Net Current Transfers	52	50	53	58	64	64
(workers' remittances)	106	98	108	116	125	115
Curr. A/C Bal. before Off. Transf.	-140	-191	-145	-158	-183	-112
Net Official Transfers	37	97	100	127	130	82
Curr. A/C Bal. after Off. Transf.	-104	-95	-45	-31	-53	-30
Long-Term Capital Inflow	41	19	5	28	-13	48
Direct Investment	13	5	5	5	10	7
Net LT Loans (DRS data)	32	55	36	74	31	29
Other LT Inflow (Net)	-4	-41	-36	-51	-55	12
Total Other Items (net)	33	78	60	4	88	..
Net Short Term Capital	46	34	43	25	89	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-12	44	17	-21	-1	0
Changes in Net Reserves	29	-2	-20	-1	-21	..
Net Credit from the IMF	-3	-9	-19	-13	-22	-16
Other Reserves Changes	32	7	-1	12	1	..
As Share of GDP:						
Resource Balance	-12.0	-11.0	-8.1	-8.6	-8.9	..
Interest Payments	0.3	0.4	0.3	0.4	0.3	..
Current Account Balance	-9.6	-9.5	-6.5	-7.0	-7.3	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	16	6	16	17	13	13
Reserves incl. Gold (mil. US$)	27	12	23	26	20	20
Official X-Rate (LCUs/US$)	5.00	5.00	5.00	5.00	5.00	5.00
Index Real Eff. X-R Base 1980	100.00	143.62	135.51	118.25	117.57	128.01
GDP (millions of current US$)	1,462	2,009	2,244	2,247	2,497	..

Budget	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-85	1986	1987	1988	1989
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J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	32	55	36	74	31	29	242	520	573	672	683	708
Official Creditors	25	58	39	76	33	35	219	453	505	604	617	647
Multilateral	21	34	26	52	28	21	132	305	343	417	429	448
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	13	20	25	48	23	9	66	174	209	280	285	293
Bilateral	3	25	13	25	5	15	86	148	162	187	189	200
Private Creditors	7	-4	-3	-2	-1	-6	24	67	69	68	66	60
Suppliers	-4	-2	-2	-2	-1	0	9	4	3	1	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	32	55	36	74	31	29	242	520	573	672	683	708
IMF Credit	27	-12	-23	-17	-27	-6	46	96	79	80	47	41
Net Short-Term Capital	46	34	43	25	89	..	14	95	56	94	92	88
Total incl. IMF & Net ST	104	76	56	82	94	..	303	711	708	846	823	837

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	27.36	33.44	36.50	41.68	41.75	41.44
3. IBRD+IDA as % of Total	27.36	33.44	36.50	41.68	41.75	41.44
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	1.97	9.09	13.10	12.33	13.60	16.05
3. IBRD+IDA as % of Total	1.97	9.09	13.10	12.33	13.60	16.05
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	58.40	118.08	141.56	156.05	178.41	162.02
2. IMF Credit/Exports	11.14	21.75	19.40	18.63	12.37	9.46
3. Short-Term Debt/Exports	3.37	21.57	13.83	21.84	24.02	20.15
4. LT+IMF+ST DOD/Exports	72.91	161.40	174.79	196.52	214.80	191.63
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	16.58	25.88	25.56	29.90	27.37	..
2. IMF Credit/GDP	3.16	4.77	3.50	3.57	1.90	..
3. Short-Term Debt/GDP	0.96	4.73	2.50	4.18	3.68	..
4. LT+IMF+ST DOD/GDP	20.69	35.37	31.56	37.65	32.96	..
Debt Service /Exports						
1. Public & Guaranteed LT	4.89	4.00	3.58	5.27	5.95	5.56
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	4.89	4.00	3.58	5.27	5.95	5.56
4. IMF Repurchases+Serv. Chgs.	0.84	4.36	7.23	7.80	7.78	5.20
5. Interest only on ST Debt	0.46	1.73	0.77	1.11	1.57	1.08
6. Total (LT+IMF+ST Int.)	6.19	10.08	21.95	14.19	17.39	14.13

Notes:

/1 Growth rates of GDP and components calculated from original 1976 base year.

e = estimated data
p = preliminary data

Hungary

Hungary is a relatively small, upper middle-income country with a population of 10.6 million. In 1988, average per capita GNP was $2,450 (based on *Atlas* methodology). Hungary joined the World Bank on July 7, 1982. The economic system has been dominated by the state and cooperative sectors (the "socialist" sector), which accounted for 94 percent of GDP in 1988, but the non-socialist private sector, while small in relation to GDP, was the most dynamic element of the economy in the 1980s. The economy is highly dependent on international connections; taken together, exports and imports are equivalent to about 80 percent of GDP.

Past policies favoring extensive industrialization transformed Hungary from an agricultural society to one in which industry accounted for 37 percent of GDP and 31 percent of employment in 1988. Almost all of industry is in the socialist sector. Energy and basic materials account for about 20 percent of industrial production. The manufacturing subsectors—machinery and engineering products, building materials, chemicals, light industry and food processing—account for nearly 80 percent of production but face problems of competitiveness arising from a distorted economic policy framework and dependence on the undemanding market of the Council for Mutual Economic Assistance (CMEA), which constitutes half of overall trade is with that area; for machinery and engineering goods, exports to CMEA countries account for almost two-thirds of total sales.

Agriculture and forestry accounted for 14 percent of GDP and 22 percent of employment in 1988. Livestock and crops comprise approximately equal shares of the gross value of production. Major products are pork, wheat, corn, poultry, milk, beef, fruits and vegetables. About two-thirds of employment in agricultural enterprises is dedicated to primary agriculture while the remainder is employed in ancillary non-agricultural activities such as food processing, manufacturing, construction and services. Many large farms (state farms or cooperatives) have developed as diversified enterprises. Small farms account for about 14 percent of cultivated area but 50 percent of the value added in agriculture production.

Since 1968, Hungary has been in the forefront of socialist countries attempting economic reforms. Rigid central planning was abolished in 1968, and the state relied increasingly on indirect "economic regulators" (such as taxes, subsidies, wage and price controls, licenses, etc.) to guide economic activity. Economic reforms over the last 20 years have moved Hungary increasingly, albeit slowly and haltingly, toward a market-based economy. Until recently, economic reforms were not accompanied by basic political changes, and Hungary remained a one-party state. Pressures for fundamental political reform have recently gained strength and, after more than 40 years of one-party rule, Hungary's first free multi-party Parliamentary elections were completed on April 8, 1990, and a coalition government took office in May 1990.

Recent Economic Developments

Economic developments in 1988-89 were mixed. On the positive side, the third year of dynamic world market conditions led to strong growth of exports to the convertible currency area (6.5 percent volume growth in 1989 following 8.8 percent growth in 1988 and 5 percent growth in 1987). As a result, the trade balance with the convertible currency area has steadily improved (from -2.0 percent of GDP in 1986 to 2.1 percent in 1989). However, the convertible currency current account deficit increased sharply in 1989 (from 2.9 percent of GDP in 1988 to 5.2 percent in 1989) was reflected mainly in the travel account where a deficit of $360 million was registered. This deterioration was due to significant slippage in fiscal policy. Instead of a targeted surplus equivalent to 0.7 percent of GDP, there was a deficit of 0.9 percent in the consolidated fiscal balance. Lax fiscal policy and failure to close down insolvent enterprises, together with liberalization of the wage system, resulted in a large overshooting of wages (16 to 17 percent growth compared with 6 to 7 percent in the plan), which exacerbated the pressure on the current account of the balance of payments. Under these conditions, efforts by the monetary authorities to run a tight monetary policy led mainly to a substantial build-up of inter-enterprise payment arrears. Real GDP has stagnated since 1988 (0.4 percent growth in 1988 followed by a decline by 1.8 percent in 1989) and the rate of inflation has accelerated (the consumer price index rose by 9 percent in 1987, 16 percent in 1988, and 18 percent in 1989).

Toward the end of 1989, the government implemented measures to halt the deterioration in the fiscal and external accounts. In early November 1989, foreign exchange allowances for Hungarian tourists abroad were sharply reduced. Effective December 12, 1989, the forint was devalued by 10 percent against a basket of convertible currencies. The most important refinancing rates of the National Banks were raised by 3 percentage points, to 17 percent for the basic refinancing rate, and 21 percent for the more widely used "liquidity rate," making the rates positive in real terms. It was also announced that a 25 percent VAT on private imports would be imposed starting January 1, 1990. The government also began implementing tight fiscal and monetary policies, with support from the IMF and the World Bank; the European Community also approved a US$1 billion loan to Hungary in support of its stabilization and structural adjustment efforts.

Economic performance in the first quarter of 1990 was broadly in line with Hungary's stabilization program. The volume of exports to the convertible currency grew by 20 percent (as compared to the planned increase of 8.5 percent for the year as a whole.) The convertible currency current account deficit was $50 million compared to the first quarter target of $450 million. The current account surplus with the ruble areas was eliminated. Fiscal performance was also in line with targets. Despite these positive developments, the rate of inflation is higher than expected (23-24 percent compared to 19-20 percent).

As a result of the slippages in 1989 performance, the external balance remains fragile. Total external debt at the end of 1989, including use of IMF credit and correcting for a previous under-reporting of debt, is estimated at US$20.6 billion. This level of debt is high in relation to the size of GDP (debt/GDP ratio is 74 percent). Almost 41 percent of convertible currency export earnings are utilized to service amortization and interest payments on debt. Given Hungary's large external indebtedness, the stagnation of the economy and accelerating inflation are serious causes of concern. However, Hungary has an unblemished record in punctually servicing its debt.

Stabilization and Reform Program

The stabilization and adjustment program contains ambitious reforms designed to accelerate structural change and to transform Hungary into a competitive market economy. In view of the fragile macroeconomic conditions and the need to reduce sharply the external imbalance, the stabilization program includes a significant improvement in the fiscal deficit; tight monetary policies, including real positive interest rates; an active exchange rate policy; and measures to reduce the CMEA trade surplus. A principal element in the structural reform program is the reform of ownership to facilitate the transformation of state enterprises into modern corporate forms and to promote their privatization. An indicative list of enterprises to be privatized initially, and a timetable for their privatization has been developed and is being implemented. Foreign direct investment is being encouraged.

Together with the promotion of new private ventures, these reforms provide the basis for dynamic growth in the future. Measures to promote market competition and enforce financial discipline form the second important element of the reform program. The liberalization of imports, decontrol of prices, the liberalization of the financial system, deregulation, and the sharp reduction in subsidies are expected to create a competitive environment. To strengthen financial discipline and prevent misallocation of scarce resources (to unprofitable enterprises), the government is committed to encouraging the closure of enterprises and farms that cannot be restructured into profitable ventures. The government has initiated liquidation proceedings against several chronically insolvent enterprises. Restructuring of inefficient sectors such as coal mining and metallurgy is proceeding and measures to improve the efficiency of the house-building sector are being identified for implementation later this year. Finally, to sustain political support essential for successful implementation of the program and to mitigate social consequences, reforms of major welfare programs (including unemployment compensation and training/retraining of labor, social security, health care, housing) will be implemented in a phased manner. Adequate financial resources are being set aside to finance these programs.

Medium-Term Prospects

The economy's medium-term prospects depend on the commitment of the authorities to continue to implement the economic stabilization and reform measures vigorously and consistently, and on the strength and speed of the supply response. Under these assumptions, GDP is expected to grow moderately during 1991-95 and rise somewhat more rapidly thereafter. A strong export growth would enable the economy to eliminate the convertible currency current account deficit by 1992. Hungary's total external debt would peak in 1992. The debt service would peak in 1990, and fall thereafter.

A major uncertainty is the impact of changes in the settlement mechanism for CMEA trade, which could be analogous to a large adverse terms of trade shock for Hungary. The adverse terms of trade shock almost certainly would result in an increase in the convertible currency current account deficit, necessitating additional financing, and higher debt. However, the dismantling of CMEA would add impetus to industrial restructuring which would be positive in the medium- and long-term.

External Debt

Following the severe external liquidity crisis of 1981-82, Hungary has improved its debt profile by gradually substituting medium- and long-term debt for short-term debt. During the last three years, however, current account imbalances and fluctuations in exchange rates have led to rapid growth in Hungary's external debt. Total external liabilities in convertible currencies, including short-term debt and outstanding IMF purchases, rose from $11.0 billion at the end of 1984 (54 percent of GDP) to $20.6 billion (74 percent of GDP) in 1989. About half of the recent increase in Hungary's debt, measured in dollars, is explained by changes in exchange rates of major currencies since 1985. Hungary's convertible currency debt rose from 179 percent of exports of goods and services (adjusted to account for the "hard" currency portion of CMEA exports) in 1984 to about 246 percent in 1989, and the convertible currency debt service ratio declined from 44 percent to 41 percent in the same period.

Unlike 1985 and 1986, when the bulk of new funds came from syndicated loans, the share of official creditors is likely to increase in 1990-92. To ensure continued access to international capital markets, Hungary must significantly improve its fiscal balance and the convertible currency current account balance. Vigorous and consistent implementation of the economic stabilization and structural reform program is expected to lead to such improvements.

HUNGARY

Mid-1988 Population (mils.)	10.6
1988 Per Capita GNP in US$:	2,480

	A. Shares of Gross Domestic Product						B. Growth Rates (% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989p*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989p*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.3	4.0	1.8	0.1	-1.8
Net Indirect Taxes	..	..	10.5	9.5	14.7	..	..	..	..	..	..
Agriculture	18.5	19.2	17.1	15.4	14.4	..	3.9	2.3	2.9	4.6	0.7
Industry	56.3	46.7	41.2	40.1	36.9	..	6.8	5.2	1.3	-2.2	-2.5
(of which Manufacturing)	..	..	..	..	..	..	..	..	..	..	..
Services	25.2	34.1	31.2	35.0	34.0	..	7.3	3.8	2.6	2.7	0.0
Resource Balance	-0.7	4.6	-2.2	-0.4	2.7	3.5	..	..	..	..	..
Exports of GNFS	..	38.2	39.1	37.9	37.8	36.7	..	6.0	4.5	6.0	2.0
Imports of GNFS	..	33.6	41.2	38.3	35.1	33.2	..	5.9	1.7	-0.4	2.3
Total Expenditures	100.7	95.4	102.2	100.5	97.3	96.5	6.4	4.0	6.6	-2.9	11.4
Total Consumption	75.2	65.8	71.5	73.8	72.2	71.4	5.1	3.6	7.3	-3.9	12.8
Private Consumption	..	56.3	61.2	63.5	61.0	60.6	..	3.4	7.4	-5.1	10.6
General Government	..	9.4	10.3	10.3	11.2	10.8	..	5.1	6.9	3.3	26.7
Gross Domestic Investment	25.5	29.7	30.7	26.7	25.1	25.1	7.4	5.2	5.0	0.0	7.5
Fixed Investment	22.8	28.7	28.8	24.7	21.2	19.9	8.5	4.7	4.9	-8.3	-1.8
Changes in Stocks	2.7	0.9	1.9	2.0	3.9	5.2	-13.3	20.3	7.4	408.7	124.6
Gross Domestic Saving	24.8	34.2	28.5	26.2	27.8	28.6	..	1.6	5.9	10.1	9.5
Net Factor Income	..	..	-1.8	-3.7	-3.8	-5.0	..	26.8	-18.4	3.2	-14.1
Net Current Transfers	..	0.8	0.2	0.4	0.4	0.7	..	-14.2	8.1	4.0	39.7
Gross National Saving	..	35.1	27.0	22.9	24.4	24.2	..	14.9	4.7	11.0	9.3

In billions of Forints (at constant 1981 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989p*					
Gross Domestic Product	348	569	751	866	869	854	6.3	4.0	1.8	0.1	-1.8
Capacity to Import	..	236	295	349	383	402	..	3.2	3.3	9.7	4.9
Terms of Trade Adjustment	..	43	3	-42	-33	-23	..	..	..	..	..
Gross Domestic Income	..	612	754	824	836	831	..	3.0	1.3	1.5	-0.6
Gross National Product	..	451	739	817	814	768	..	7.3	1.2	-0.4	-5.6
Gross National Income	..	494	741	776	781	746	..	6.0	0.7	0.7	-4.5

C. Price Indices			(1987 = 100)				Inflation Rates (% p.a.)				
	1980	*1984*	*1985*	*1987*	*1988*	*1989p*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989p*
Consumer Prices (IFS 64)	100.0	130.0	139.1	159.2	186.0	..	1.6	5.3	3.7	15.7	..
Wholesale Prices (IFS 63)	100.0	122.4	128.8	135.3	140.0	..	..	..	1.0	3.5	..
Implicit GDP Deflator	100.0	119.1	126.7	142.3	161.0	196.0	..	..	3.0	13.1	21.7
Implicit Expenditures Deflator	100.0	123.2	131.1	149.0	169.0	175.9	..	..	3.2	13.4	4.1

D. Other Indicators:

Growth Rates (% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	0.3	0.4	-0.1	1/
Labor Force	1.1	0.0	-0.6	
Gross Nat'l. Income p.c.	..	5.5	-0.5	1/
Private Consumption p.c.	..	3.0	1.6	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	..	1.5	1.0	
Marginal Savings Rates (%):				
Gross National Saving	..	..	23.0	
Gross Domestic Saving	..	..	34.3	
ICOR (period averages):	4.7	8.5	14.0	

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1987*	*1988*	*1989p*
Agriculture	28.7	23.0	20.5	19.3	..	..
Industry	40.3	43.6	41.4	38.2	..	..
Services	31.0	33.4	38.1	42.5	..	..
Total	100.0	100.0	100.0	100.0	100.0	100.0

Notes: p = preliminary data

1/ 1980-87.

E. Merchandise Exports	Volume Index (1980=100) 1980	1985	1986	1987	1988	1989p	Value at Current Prices (million US$) 1980	1985	1986	1987	1988	1989p
Fuel & Elec Energy	100.0	121.7	159.0	161.1	174.2	184.9	362	390	318	348	398	257
Raw Materials	100.0	120.5	119.4	127.9	135.1	139.5	2,725	2,556	2,770	3,048	3,269	3,419
Capital Goods	100.0	133.0	129.6	132.0	134.3	132.4	2,283	2,442	2,762	2,760	2,634	2,393
Manuf Consumer Goods	100.0	117.9	116.7	123.0	128.1	129.8	1,401	1,279	1,481	1,583	1,640	1,539
Foods, Raw & Processed	100.0	134.2	126.7	126.8	134.3	139.3	1,954	1,804	1,840	1,845	1,980	2,081
Total - Exports	100.0	127.1	124.3	128.8	134.8	137.5	8,725	8,471	9,170	9,583	9,922	9,688
F. Merchandise Imports												
Fuel & Elec Energy	100.0	100.7	101.4	102.8	103.0	100.1	1,379	1,707	1,864	1,613	1,479	994
Raw Materials	100.0	101.8	103.7	106.4	103.0	106.9	4,579	3,666	4,295	4,592	4,391	4,702
Other Consumer Goods	100.0	97.7	98.5	104.5	103.1	104.5	1,789	1,365	1,607	1,736	1,629	1,443
Other Intermed. Goods	100.0	140.0	156.0	159.7	157.1	159.0	774	863	1,120	1,200	1,133	1,014
Foods, Raw & Processed	100.0	103.6	106.9	112.9	106.9	114.2	779	583	708	718	694	732
Total - Imports	100.0	105.4	107.6	111.0	108.5	111.0	9,300	8,183	9,594	9,859	9,326	8,884

G. Terms of Trade (1980=100)	1980	1985	1986	1987	1988	1989p
Merch. Exports Price Index	100.0	118.9	118.7	122.9	130.5	148.6
Merch. Imports Price Index	100.0	129.9	137.2	138.9	144.4	160.3
Merchandise Terms of Trade	100.0	91.5	86.5	88.5	90.4	92.7

Notes: Data above and in the first six columns below combine convertible and nonconvertible currencies. Trade data in E and F do not match BOP(H) due to timin and valuation differences.

H. Balance of Payments	1980	1985	1986	1987	1988	1989p	Convertible Currency Balance of Payments US$ millions (at current prices) 1980	1985	1986	1987	1988	1989p
Exports of Goods & NFS	..	9,808	10,762	11,787	11,922	12,285	..	4,903	5,150	6,272	6,860	7,818
Merchandise (FOB)	..	8,578	9,198	9,966	9,989	10,250	..	4,188	4,186	5,051	5,505	6,330
Non-Factor Services 1/	..	1,230	1,565	1,821	1,933	2,035	..	715	964	1,221	1,355	1,488
Imports of Goods & NFS	..	9,460	11,212	11,542	11,519	11,614	..	4,977	5,757	6,265	6,703	7,974
Merchandise (FOB)	..	8,130	9,663	9,887	9,406	9,145	..	4,060	4,668	5,014	5,016	5,735
Non-Factor Services 1/	..	1,330	1,550	1,655	2,113	2,469	..	917	1,089	1,251	1,687	2,239
Resource Balance	..	347	-450	245	403	671	..	-74	-607	7	157	-156
Net Factor Income	..	-867	-991	-1,027	-1,093	-1,410	..	-833	-963	-988	-1,076	-1,400
(interest payment)	..	..	..	..	..	..	..	..	..	..	..	..
Net Current Transfers	..	65	78	105	118	116	..	61	74	102	115	113
(workers remittances)												
Current Account Balance	..	-455	-1,363	-677	-572	-623	..	-846	-1,496	-879	-804	-1,443
Long-Term Capital Inflow	..	..	..	..	..	..	..	..	..	..	..	..
Direct Investment	..	0	0	0	0	125	..	0	0	0	0	125
Official Capital Grants	..	0	0	0	0	0	..	0	0	0	0	0
Net LT Loans	..	1,825	971	380	385	885	..	1,843	1,138	486	583	1,037
Other LT Inflows (Net)	..	-225	-127	-154	-95	-88	..	-240	-79	-84	-26	32
Total Other Items (net)	..	..	..	..	..	..	..	..	..	..	..	..
Net Short Term Capital	..	-629	495	-698	246	-30	..	-389	493	-778	288	0
Capital Flows N.E.I.	..	..	..	..	..	..	..	..	..	..	..	..
Errors and Omissions	..	..	..	..	..	..	..	..	..	..	..	..
Change in Net Reserves	..	-516	24	1,149	36	-269	..	-368	-56	1,255	-41	374
Net Credit from the IMF	..	-95	-48	-354	-133	-158	..	-95	-48	-354	-133	-158
Other Reserve Changes	..	-421	72	1,503	169	-111	..	-273	-8	1,609	92	532
[- indicates increase]												
As shares of GDP:												
Resource Balance	..	1.68	-1.89	0.94	1.44	2.40						
Interest Payments	..	..	..	..	..	..						
Current Account Balance	..	-2.20	-5.73	-2.59	-2.04	-2.23						
Memorandum Items:												
Int'l. Reserves (mil. US$)	..	2,153	2,302	1,634	1,467	1,246						
Reserves incl. Gold (mil.US$)	..	2,793	3,053	2,159	1,976	1,725						
Official X-Rate (Ft/US$)	32.5	50.1	45.8	47.0	50.4	60.4						
Index Real Eff. X-R 1980=100 2/	100.0	116.8	98.8	82.5	74.6	77.5						
GDP (Millions of current US$)	22,384	20,633	23,773	26,094	28,002	27,935						

1/ Include government and other services.
2/ A rise implies an appreciation.
p = preliminary data

I. Budget a/	*Shares of GDP (%)* 1980	1985	1986	1987	1988	1989p	*Growth Rates (% p.a.)* 1980-83	1986	1987	1988	1989p
Tax Receipts	..	44.1	49.2	46.9	48.4	45.0	..	17.5	7.3	17.7	12.0
Current Expenditures	49.6	47.6	55.9	50.1	48.4	45.8	7.0	23.8	1.0	10.2	14.0
Current Budget Balance	7.5	4.6	1.0	1.8	3.1	1.9	-4.7	-77.0	114.4	96.9	-8.6
Other Receipts	..	8.0	7.7	5.1	3.2	2.8	..	0.7	-25.5	-28.7	27.8
Capital Expenditures	9.7	5.6	4.1	3.9	3.4	2.9	-8.3	-23.8	8.1	-0.8	1.9
Overall Deficit	-2.2	-1.0	-3.2	-2.1	-0.3	-0.9	-25.4	242.6	-24.5	-85.9	34.8
External Borrowing (net)	2.2	1.0	3.2	2.1	0.3	0.9					
Domestic Non-Bank Financing	..	1.1	4.0	2.7							
Domestic Bank Financing	..	-0.1	-0.8	-0.7							

p = preliminary

a/ Consolidated Central Government (Source: Govt Financial Statistics)

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1984	1985	1986	1987	1988	*Debt Outstanding & Disbursed (US$ Mil.)* 1980	1984	1985	1986	1987	1988
Public & Publicly Guar. LT	741	1,016	1,905	1,028	1,072	118	6,409	7,380	10,138	12,543	15,739	14,607
Official Creditors	..	..	..	..	..	..	..	..	..	..	..	..
Multilateral	..	..	..	..	..	..	..	..	..	..	..	..
of which IBRD	..	121	162	180	195	254	..	169	372	629	977	978
of which IDA	..	..	..	..	..	..	..	..	..	..	..	..
Bilateral	..	..	..	..	..	..	..	..	..	..	..	..
Private Creditors	..	..	..	..	..	..	..	..	..	..	..	..
Suppliers	..	..	..	..	..	..	..	..	..	..	..	..
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-Guaranteed LT	..	..	..	..	..	..	..	..	..	..	..	..
Total LT	741	1,016	1,905	1,028	1,072	118	6,409	7,380	10,138	12,543	15,739	14,607
IMF Net Credit	..	436	-90	-48	-353	-133	..	953	971	1,031	809	435
Net Short-Term Capital	266	-945	-488	477	-1,076	298	3,905	1,763	1,881	2,620	2,217	2,311
Total incl. IMF & Net ST	1,007	507	1,327	1,457	-357	283	10,314	10,096	12,990	16,195	18,765	17,353
of which: Convertible Currency	0	1,843	1,138	486	583	1,037	9,090	8,836	11,760	15,194	17,978	16,636

Notes: Data below refer to convertible currencies.

The denominator used (adjusted exports) in the convertible currency debt ratios is exports of goods and services adjusted to include ruble exports corresponding to ruble imports of energy and raw materials, and to exclude estimated re-exports.

Bank and IDA Ratios	1980	1984	1985	1986	1987	1988	*Convertible Currency Debt Ratios* 1980	1984	1985	1986	1987	1988
Share of Total Long-Term DOD (Conv incl IMF)												
1. IBRD as % of Total	..	2.30	3.70	4.90	6.10	6.70						
2. IDA as % of Total	..	..	..	..	..	..						
3. IBRD+IDA as % of Total	..	2.30	3.70	4.90	6.10	6.70						
Share of Total LT Debt Service (Conv incl IMF)												
1. IBRD as % of Total	..	0.40	0.80	1.20	3.00	4.30						
2. IDA as % of Total	..	..	..	..	..	..						
3. IBRD+IDA as % of Total	..	0.40	0.80	1.20	3.00	4.30						
DOD-to-Exports Ratios												
1. Long-Term Debt/Exports	62.98	70.59	97.41	114.33	133.24	119.71	95.41	104.66	147.81	175.59	207.25	178.50
2. IMF Credit/Exports	..	9.11	9.33	9.40	6.85	3.56	..	15.43	15.79	15.60	11.20	5.48
3. Short-Term Debt/Exports	38.38	16.86	18.08	23.88	18.77	18.94	55.60	23.01	27.75	36.55	27.04	26.00
4. LT+IMF+ST DOD/Exports	101.36	96.56	124.82	147.61	158.86	142.21	151.01	143.10	191.35	227.75	245.49	209.98
DOD-to-GDP Ratios												
1. Long-Term Debt/GDP	28.63	36.24	49.15	52.80	60.34	52.58	25.66	31.73	44.05	48.97	57.41	50.90
2. IMF Credit/GDP	..	4.68	4.71	4.34	3.10	1.56	0.00	4.68	4.71	4.30	3.10	1.56
3. Short-Term Debt/GDP	17.45	8.66	9.12	11.03	8.50	8.32	14.95	6.98	8.27	10.19	7.49	7.40
4. LT+IMF+ST DOD/GDP	46.08	49.57	62.98	68.17	71.94	62.46	40.61	43.39	57.02	63.46	68.00	59.86
Debt Service Ratios (DS/Exp)												
1. Public & Guaranteed LT	13.90	26.67	30.48	36.05	29.25	26.95	13.50	38.70	46.40	51.60	40.00	35.90
2. Private Non-guaranteed LT	..	..	..	..	..	..	..	..	..	..	..	..
3. Total LT Debt Service	13.90	26.67	30.48	36.05	29.25	26.95	13.50	38.70	46.40	51.60	40.00	35.90
4. IMF Repurchases+Serv.Chgs.	..	..	1.65	1.19	3.57	3.25	..	..	2.79	1.97	5.84	5.01
5. Interest Only on ST Debt	..	..	..	..	..	..	..	..	..	..	..	..
6. Total (LT+IMF+ST Int.)	..	..	..	..	..	..	..	..	..	..	..	..

India

India is the seventh largest country in area and, with a population of about 850 million in 1990, the second most populous. It is also among the poorest of nations, with an average per capita income of about US$340 in 1988. Agriculture dominates the economy, accounting for over 60 percent of employment. The large and growing population, which is increasing at about 2.0 percent per year, has put increasing pressure on natural resources and resulted in significant environmental degradation. Industrial growth, although picking up recently, has not been rapid enough to absorb the growing labor force and bring about significantly higher per capita income levels.

For most of the past four decades, India's economic policy was dominated by goals of national self-reliance and interpersonal and interregional equity. Heavy reliance was placed on the state as a promoter and regulator of private economic activity and as an investor or owner in the sectors considered to be the commanding heights of the economy (heavy industry, power, transport and finance). Macroeconomic management tended to be conservative: government deficits were modest, monetary expansion was tightly controlled and external commercial borrowing was largely avoided.

This policy regime produced some notable successes: there was a rapid expansion of industrial infrastructure and production capacity (especially in heavy industry); agricultural growth, propelled by irrigation investment, moved ahead of the rate of population growth; internal and external macroeconomic balance was sustained; inflation was moderate; and finally, some reduction in internal economic disparities was achieved.

There were, however, critical areas in which performance fell short of expectations. Overall GDP growth was low, averaging only about 3.5 percent per year (1.4 percent per capita) through the mid-1970s. This was not sufficient to have a significant impact on poverty and, by the mid-1970s, close to half of India's population still lived below the poverty line. Moreover, low growth, despite high levels of saving and investment, indicated inefficiency in the allocation and use of resources. The effort to develop indigenous production and technology through heavy protection and state intervention resulted in a widening gap between India's efficiency levels and technological capabilities and the rapidly advancing international frontier.

Policy Adjustments and Recent Developments

Policy since the late 1970s has gradually evolved to focus more on achieving greater efficiency, productivity and competitiveness in the economy. The reliance on massive capital formation to achieve growth is being replaced by a new emphasis on efficiency and a willingness to experiment with new institutional structures based on private decisionmaking. Important among the changes in the economic policy framework were an easing of industrial licensing requirements, an acceleration of trade liberalization, and a new emphasis on the promotion of exports through flexible management of the exchange rate. Growing emphasis is being given to human capital formation and direct interventions to boost the incomes of the poor.

This gradual evolution of India's economic policies has resulted in a strengthening of key aspects of performance. GDP growth during the Seventh Plan period (1985/86-1989/90)[1] averaged 5.8 percent. Moreover, the robust growth of this period was sustained without higher inflation. The wholesale price index rose by an annual average of 6.4 percent during 1985-90, compared to 9.4 percent a year in 1980-85. Management of food reserves and imports to ensure ample availability of basic commodities, combined with continued import liberalization and reform of indirect taxes were the key factors limiting inflation.

The attack on poverty has also achieved some success. With faster growth and expanded direct inter-

1 Fiscal year ending March 30

ventions, poverty incidence has trended slowly downward since the late 1970s.

These successes notwithstanding, the last five years have also witnessed the build-up of stresses in India's macroeconomic balances, the most serious being the persistent resource gap that has emerged in public sector finances. Despite an impressive revenue raising effort, government (centre and states) current spending has outstripped revenues. As a result, the government has swung from being a net saver to a dissaver, and its overall deficit has risen from about 5 percent of GDP at the end of the 1970s to an average of 10.1 percent of GDP in 1985-90. Increasingly, the burden of expenditure restraint has fallen on capital expenditures which fell from 8.2 percent of GDP in 1986/87 to 6.3 percent in 1989/90. The risk that public sector deficits will continue to put upward pressure on prices and destabilize the balance of payments is of considerable concern.

Export performance has been very strong during the Seventh Plan. Merchandise exports have grown (in real terms) by over 10 percent a year since 1986/87. Nevertheless, investment demand and rapidly increasing government consumption and defense expenditures combined to create excess demand that spilled over into the trade account. Over the period 1985-90, India's merchandise trade balance recorded deficits averaging US$8.1 billion a year

The traditional positive balance on invisibles has been shrinking in the 1980s, as interest payments abroad have increased and private remittances stagnated. Net invisible receipts averaged only US$0.9 billion in 1985-90 compared to US$3.2 billion in 1980-85. As a result, there has been a steady rise in the current account deficit from US$3.2 billion in 1980-85 to US$7.2 billion in 1985-90. Gross foreign reserves losses during the Seventh Plan amounted to about US$2.0 billion. However, India made IMF repurchases equivalent to US$3.8 billion during this period. Gross reserves (excluding gold) stood at US$4.1 billion in March 1990—equivalent to less than 2.0 months of imports.

The persistently large current account deficits of recent years have resulted in a rapid accumulation of external debt. Total medium- and long-term debt (including private nonguaranteed debt) rose from US$26.6 billion in March 1985 to an estimated US$57.3 billion in March 1990. Including short-term debt and obligations to the IMF, the total debt stock in March 1990 amounted to US$63 billion. Much of the increase in external borrowing has been from private creditors, and the share of public and publicly guaranteed medium- and long-term debt owed to commercial sources has risen from 24 percent in March 1985 to 41 percent in March 1990. Mirroring this increase in external indebtedness, India's debt service ratio (to current receipts) rose from about 18 percent in 1984/85 to an estimated 27.3 percent in 1989/90. Rapid export growth in the last three years has stabilized the ratio, which declined from 29.3 percent in 1988/89.

In November 1989, a minority government headed by Prime Minister V.P. Singh was installed. The new government has affirmed its commitment to reducing the fiscal deficit and continuing to promote exports. The central government budget for 1990/91 envisions a significant reduction of the fiscal deficit (from 8.4 percent to 7.0 percent of GDP) during 1990/91, based on additional revenues (0.5 percent of GDP), and restraint of current expenditures (0.4 percent of GDP, including an absolute reduction in subsidy outlays) and capital spending (0.5 percent of GDP).

India's Eight Five Year Plan (1990/91-1994/95) is currently under preparation. In May 1990, the government released the Approach Paper to the Eight Plan. In this document, priority has been given to the stabilization of the economy, as well as to the alleviation of poverty and creation of employment. The Approach Paper also makes clear that the thrust for sustainable growth through greater efficiency and productivity will continue. The recently announced Export-Import Policy and Industrial Policy Statement also contain important elements of the policy framework within which these objectives will be pursued. Additionally, as part of the overall, medium term policy framework, a new long-term fiscal policy is being prepared.

INDIA

Mid-1988 Population (mils.)	814
1988 Per Capita GNP in US$:	330

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	3.7	3.8	5.6	9.8	4.8
Net Indirect Taxes	8.0	8.1	10.0	11.5	10.8	11.0	..	..	..	..	..
Agriculture	40.5	42.8	34.2	27.6	29.1	28.2	3.3	1.8	2.6	17.4	1.8
Industry	20.1	19.9	23.3	25.4	25.1	25.4	3.9	5.1	7.0	7.7	5.9
(of which Manufacturing)	14.3	14.3	15.9	16.3	16.1	16.1	4.3	4.9	7.7	8.2	5.0
Services	31.3	29.2	32.5	35.5	35.1	35.4	4.1	5.0	6.3	6.9	6.0
Resource Balance	-2.0	-0.5	-3.6	-2.6	-3.3	-2.9	..	..	..	..	..
Exports of GNFS	3.6	4.3	6.5	6.3	6.7	8.0	3.1	8.5	5.1	12.3	15.8
Imports of GNFS	5.6	4.8	10.1	8.9	10.0	10.9	-0.3	8.2	6.5	19.6	0.9
Total Expenditures	101.9	100.5	103.6	102.6	103.3	102.9	3.4	3.9	5.6	10.4	3.7
Total Consumption	86.9	83.5	82.6	79.3	77.4	80.0	3.3	3.5	6.0	9.0	5.5
Private Consumption	78.1	75.2	73.0	66.9	65.6	67.2	3.0	3.3	5.6	9.7	4.2
General Government	8.8	8.3	9.6	12.3	11.9	12.8	5.7	5.7	8.3	4.9	13.2
Gross Domestic Investment	16.9	18.3	22.8	22.9	24.4	22.9	3.6	5.0	4.5	15.3	-2.1
Fixed Investment	15.8	14.6	19.3	20.3	20.5	20.1	2.5	5.7	4.9	8.0	5.2
Changes in Stocks	1.1	3.6	3.5	2.6	3.9	2.8	..	..	..	..	..
Gross Domestic Saving	15.0	17.7	19.2	20.3	21.1	20.0	6.0	3.7	4.3	12.7	0.4
Net Factor Income	-0.6	-0.3	0.3	-1.0	-1.1	-1.4	..	..	..	..	..
Net Current Transfers	0.2	0.2	1.7	1.1	1.1	1.0	..	..	..	..	..
Gross National Saving	14.6	17.6	21.2	20.4	21.0	19.7	6.3	5.0	3.3	12.1	-0.4

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	1,392	1,810	2,328	3,326	3,651	3,824	3.7	3.8	5.6	9.8	4.8
Capacity to Import	96	128	135	210	238	262	4.6	4.4	7.0	13.1	10.2
Terms of Trade Adjustment	29	41	-21	0	2	-12	..	..	..	..	..
Gross Domestic Income	1,421	1,851	2,307	3,326	3,653	3,812	3.8	3.6	5.6	9.8	4.4
Gross National Product	1,380	1,803	2,332	3,293	3,608	3,778	3.8	3.9	5.3	9.6	4.7
Gross National Income	1,409	1,844	2,311	3,293	3,610	3,766	3.9	3.7	5.5	9.6	4.3

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	54.5	84.2	91.6	100.0	109.1	..	5.3	5.1	8.7	9.1	..
Wholesale Prices (IFS 63)	63.5	88.3	92.9	100.0	107.4	..	6.9	6.9	6.6	7.4	..
Implicit GDP Deflator	58.3	85.1	90.9	100.0	107.2	115.8	6.2	6.8	7.7	7.2	8.0
Implicit Expenditures Defl.	59.1	85.1	90.5	100.0	107.3	116.6	6.3	7.1	7.6	7.3	8.7

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.3	2.3	2.1
Labor Force	..	..	..
Gross Natl. Income p.c.	1.5	1.3	3.3
Private Consumption p.c.	0.7	0.9	3.4
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	-0.1	2.2	1.2
Marginal Savings Rates:			
Gross National Saving	28.5	34.9	21.6
Gross Domestic Saving	27.5	25.4	24.2
ICOR (period averages):	..	6.2	3.9

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	72.9	71.1	69.7	..
Industry	11.9	12.8	13.2	..
Services	15.1	16.1	17.0	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.MAN.TEXT	..	..	..	..	..	..	1,292	1,026	1,079	1,483	1,375	1,720
X.BEV.TEA	116.2	104.3	97.4	100.0	98.1	100.4	539	512	451	457	414	394
X.MET.FE	79.2	106.4	101.4	100.0	116.5	129.3	384	473	427	419	464	557
X.BEV.COFFEE	101.5	111.6	82.8	100.0	92.9	134.8	271	216	232	203	193	294
Other Manufactures	60.4	71.1	79.3	100.0	114.5	140.8	3,775	4,658	5,422	7,530	9,456	11,827
Residual	91.3	107.1	130.3	100.0	109.6	93.8	2,071	2,576	2,849	2,552	2,307	2,259
Total Exports FOB	70.2	81.6	90.8	100.0	112.5	134.0	8,332	9,461	10,460	12,644	14,208	17,050
F. Merchandise Imports												
Food	78.8	85.1	89.3	100.0	107.9	99.0	1,348	1,321	1,068	1,292	1,232	1,888
Fuel and energy	111.2	85.1	84.3	100.0	118.0	123.6	6,669	4,054	2,187	3,148	2,938	3,669
Other Consumer Goods	11.5	59.1	91.6	100.0	163.7	155.7	371	1,683	2,524	3,139	5,085	5,059
Other Intermed. Goods	81.1	126.8	124.2	100.0	137.1	140.8	5,197	6,900	7,038	7,502	10,938	11,095
Capital goods	58.7	94.0	115.9	100.0	71.7	73.6	2,307	3,337	4,911	4,732	3,657	3,703
Total Imports CIF	74.6	95.3	103.6	100.0	121.4	122.5	15,892	17,295	17,728	19,812	23,849	25,415

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	93.9	91.7	91.2	100.0	99.9	100.6
Merch. Imports Price Index	107.5	91.6	86.3	100.0	99.2	104.7
Merch. Terms of Trade	87.4	100.1	105.6	100.0	100.7	95.8

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	11,281	12,771	13,677	16,215	18,184	21,214
Merchandise (FOB)	8,332	9,461	10,460	12,644	14,208	17,050
Non-Factor Services	2,949	3,310	3,217	3,571	3,976	4,164
Imports of Goods & NFS	17,408	19,419	19,950	22,839	27,093	28,955
Merchandise (FOB)	15,892	17,295	17,728	19,812	23,849	25,415
Non-Factor Services	1,516	2,124	2,222	3,027	3,244	3,540
Resource Balance	-6,127	-6,648	-6,273	-6,624	-8,909	-7,740
Net Factor Income	356	-1,552	-2,045	-2,471	-2,985	-3,622
(interest per DRS)	503	1,311	1,725	2,091	2,554	3,098
Net Current Transfers	2,860	2,305	2,327	2,698	2,979	2,720
(workers' remittances)	2,786	2,220	2,287	2,721	2,850	2,750
Curr. A/C Bal. before Off. Transf.	-2,911	-5,895	-5,991	-6,397	-8,915	-8,642
Net Official Transfers	643	359	403	410	406	500
Curr. A/C Bal. after Off. Transf.	-2,268	-5,536	-5,588	-5,987	-8,509	-8,142
Long-Term Capital Inflow	1,760	4,206	5,191	5,859	6,726	8,193
Direct Investment	8	160	208	181	287	425
Net LT Loans (DRS data)	1,424	2,545	3,274	3,872	4,101	5,470
Other LT Inflow (Net)	328	1,501	1,709	1,806	2,338	2,298
Total Other Items (net)	-853	2,141	1,117	721	1,419	-30
Net Short Term Capital	228	273	168	222	253	250
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-1,081	1,868	949	500	1,166	-280
Changes in Net Reserves	1,360	-812	-720	-593	364	-20
Net Credit from the IMF	1,014	-264	-648	-932	-1,068	-870
Other Reserves Changes	346	-548	-72	339	1,432	850
As Share of GDP:						
Resource Balance	-3.6	-3.1	-2.7	-2.6	-3.3	-2.9
Interest Payments	0.3	0.6	0.8	0.8	0.9	1.2
Current Account Balance	-1.7	-2.7	-2.6	-2.5	-3.3	-3.3
Memorandum Items:						
Reserves excl. Gold (mil. US$)	6,858	6,657	6,730	6,391	4,959	4,109
Reserves incl. Gold (mil. US$)	12,010	9,493	10,480	11,512	9,186	11,610
Official X-Rate (LCUs/US$)	7.89	12.24	12.79	12.97	14.48	16.66
Index Real Eff. X-R Base 1980	100.00	104.00	89.00	86.50	77.20	73.40
GDP (millions of current US$)	176,359	147,912	182,060	256,477	252,167	229,514

I. Budget (Cons. General Govt)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	17.5	19.4	19.9	20.1	19.7	20.3	15.3	14.5	14.4	15.1	16.5
Current Expenditures	17.5	21.3	22.6	23.2	23.0	22.7	18.8	18.1	16.4	17.0	11.6
Current Budget Balance	0.1	-1.9	-2.6	-3.1	-2.8	-2.4	..	..	..	..	..
Capital Expenditures	8.2	7.4	8.2	7.0	6.7	6.3	12.5	24.1	-3.6	12.9	7.1
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-8.1	-9.3	-10.9	-10.0	-10.1	-8.8	..	..	..	..	..
Grants a/	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	0.9	0.6	0.5	0.9	0.9	0.7	4.4	-2.3	95.7	16.6	-9.9
Domestic Non-Bank Financing	4.6	7.4	7.2	7.5	6.9	6.2	28.0	9.0	17.4	8.4	2.2
Domestic Bank Financing	2.5	1.3	3.1	1.7	2.3	1.9	6.4	166.1	-39.8	60.8	-7.3

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	1,231	2,405	3,429	3,662	4,269	5,423	18,322	31,429	38,936	46,131	49,694	55,768
Official Creditors	934	1,376	1,361	2,522	2,628	2,089	16,315	22,484	26,064	30,052	31,055	33,074
Multilateral	777	1,242	1,072	1,761	2,228	1,761	6,070	12,400	14,268	16,588	18,060	19,879
of which IBRD	103	224	467	865	1,414	773	826	2,396	3,475	4,661	5,590	6,363
of which IDA	637	994	595	848	675	771	5,142	9,750	10,529	11,615	12,019	12,849
Bilateral	158	133	290	762	400	328	10,245	10,084	11,796	13,464	12,995	13,195
Private Creditors	296	1,030	2,067	1,139	1,641	3,334	2,007	8,945	12,872	16,079	18,639	22,693
Suppliers	-37	147	163	-93	-80	5	118	629	805	715	632	637
Financial Markets	333	883	1,904	1,233	1,721	3,329	1,889	8,316	12,067	15,364	18,007	22,056
Private Non-guaranteed	194	140	-155	210	-168	47	336	1,497	1,350	1,652	1,473	1,520
Total LT	1,425	2,545	3,274	3,872	4,101	5,470	18,658	32,926	40,286	47,783	51,167	57,288
IMF Credit	1,013	-264	-648	-932	-1,068	-870	977	4,832	4,768	4,023	2,573	1,702
Net Short-Term Capital	228	273	168	222	253	250	926	3,129	3,297	3,519	3,772	4,022
Total incl. IMF & Net ST	2,666	2,554	2,794	3,162	3,287	4,850	20,561	40,887	48,351	55,325	57,512	63,011

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	4.43	7.28	8.62	9.75	10.92	11.11
2. IDA as % of Total	27.56	29.61	26.14	24.31	23.49	22.43
3. IBRD+IDA as % of Total	31.99	36.89	34.76	34.06	34.41	33.54
Share of LT Debt Service						
1. IBRD as % of Total	10.76	11.69	12.63	19.13	16.55	17.22
2. IDA as % of Total	3.92	4.63	4.09	3.95	3.81	4.03
3. IBRD+IDA as % of Total	14.68	16.32	16.72	23.08	20.36	21.25
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	123.16	211.90	244.68	246.54	238.76	235.18
2. IMF Credit/Exports	6.45	31.10	28.96	20.75	12.01	6.99
3. Short-Term Debt/Exports	6.11	20.14	20.02	18.16	17.60	16.51
4. LT+IMF+ST DOD/Exports	135.71	263.13	293.66	285.45	268.36	258.67
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	10.84	15.35	17.56	18.63	18.94	21.56
2. IMF Credit/GDP	0.57	2.25	2.08	1.57	0.95	0.64
3. Short-Term Debt/GDP	0.54	1.46	1.44	1.37	1.40	1.51
4. LT+IMF+ST DOD/GDP	11.95	19.06	21.07	21.57	21.29	23.71
Debt Service /Exports						
1. Public & Guaranteed LT	7.62	13.90	18.68	19.28	19.19	19.16
2. Private Non-guaranteed LT	0.80	3.33	3.87	2.52	2.72	2.05
3. Total Long-Term Debt Service	8.42	17.23	22.55	21.79	21.91	21.21
4. IMF Repurchases+Serv. Chgs.	0.09	4.02	5.86	6.34	6.07	4.53
5. Interest only on ST Debt	0.70	1.45	1.37	1.29	1.34	1.55
6. Total (LT+IMF+ST Int.)	9.20	22.70	29.78	29.42	29.32	27.29

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Indonesia

The Republic of Indonesia is a geographically diverse country spread across an archipelago of more than 13,000 islands, with a land area of about 2 million square kilometers. It has a mid-1988 estimated population of 175 million, growing at about 2.1 percent per annum, and is the world's fifth most populous nation. The country has a very diversified natural resource base, with plentiful primary energy resources, significant mineral deposits, large timber potential and a developed system of agricultural commodity production and export. A high proportion of these primary resources are located in the relatively less populated islands of Sumatra and Kalimantan. Two-thirds of the population lives in Java, which has one of the highest rural population densities in the world. About a quarter of the population lives in urban areas, and the current rate of urban population growth is about 4 percent per annum The 1988 estimate of GNP per capita is US$470, which places Indonesia at the upper end of the low-income countries.[1]

Macroeconomic Developments

Indonesia grew at almost 8 percent per annum during the 1970s. Much of the impetus to this growth came from a rapid expansion of net oil and natural gas exports. By 1980, oil and natural gas accounted for 80 percent of export earnings and 70 percent of government revenues. Compared to many oil exporters, Indonesia used these resources well. It managed to a large extent to prevent the commodity-producing sectors (agriculture and manufacturing) from lagging behind the rest of the economy. It also succeeded in improving education, health and family planning, and in substantially reducing the incidence of poverty. Sound macroeconomic management, and, following the Pertamina (state-owned oil company) crisis, a prudent external borrowing strategy enabled Indonesia to achieve a balance of payments surplus and to reduce its debt service to exports ratio to below 13 percent by the end of the 1970s. Despite the progress made however, some structural problems remained, which heightened the adjustment challenges that emerged from a series of external shocks in the 1980s.

The main external shock has been a severe deterioration in Indonesia's terms of trade, primarily due to the collapse of oil prices. Indonesia's crude oil export price fell steadily from a peak of US$34.3 a barrel in 1981/82[2] to US$25.0 a barrel in 1986. Although there was a partial recovery in 1987, oil prices fell again in 1988. Despite the recovery in oil prices in 1989, Indonesia's average crude oil export price is only 42 percent of the real price in 1981/82. The second source of external shocks was the depreciation of the U.S. dollar between 1985 and 1988. As a large proportion of Indonesia's foreign debt is denominated in currencies that have appreciated in relation to the U.S. dollar, Indonesia's debt services payments have increased considerably. On average, over 1983-88 Indonesia is estimated to have suffered an income loss equivalent to some 9-10 percent of its GNP.

The Government's Adjustment Program. The government has responded effectively to the challenges posed by these adverse developments by implementing, since 1983, a broad range of adjustment measures and structural policy reforms. These adjustments have comprised of measures to restore financial stability in the short term, as well as policies to restructure the economy over the medium term in order to reduce Indonesia's dependence on oil as a source of foreign exchange and budgetary revenues, and to improve economic efficiency. The policies can be grouped into four broad categories: (a) exchange rate policy; (b) fiscal policy; (c) monetary and financial policies; (d) trade and other regulatory reforms.

The government's policy to maintain an appropriate exchange rate has served to restore balance of payments stability as well as promote structural

1. On the basis of the World Bank's system of country classification and *Atlas* methodology for calculation of GNP.

2. Fiscal year begins April 1 of specified year.

adjustments. Two major devaluations were undertaken in March 1983 and in September 1986. Since then there has been a more active management of the exchange rate and, in October 1989, a new procedure for exchange rate management was introduced to allow greater flexibility to reflect market trends.

Strong fiscal measures have also been implemented in order to restrain public expenditure, mobilize public resources and reduce the overall fiscal deficit. Many large capital intensive projects were rephased in 1983, with an estimated foreign exchange savings of US$10 billion. In response to the collapse in oil prices in early 1986, austere budgets have been implemented since 1986/87. During 1986-89, civil service salaries were frozen and real capital spending by the central government cut by 25 percent. Some measures were also taken to restrain public enterprise investment, and equity participation in public enterprises funded through the budget was reduced to minimal levels. In addition a tight control has been exercised on the use of non-concessional import related credit since 1984. On the revenue side, a sweeping tax reform was implemented over 1984-86, to increase non-oil tax revenues and improve the efficiency of the tax system. Further measures to broaden the tax base and improve tax administration were implemented in 1989. This helped boost tax revenues sufficiently to enable a reduction in the central government's budget deficit from 3.0 percent of GDP in 1988/89 to 1.4 percent in 1989/90, while at the same time allowing a 5 percent increase in real terms in the central government's capital expenditures.

These fiscal and exchange rate measures have been buttressed by monetary and financial policies to contain inflationary pressures, prevent capital flight, mobilize financial resources and promote the efficient use of these resources. The government has recognized the importance of keeping inflation low to maintain a competitive exchange rate. Because private capital movement to and from other countries is virtually unrestricted, the government has also recognized the need to ensure competitive interest rates for domestic currency deposits. A major financial sector reform was initiated in June 1983, which deregulated state bank interest rates, simplified subsidized lending rates for priority sectors and replaced credit ceilings with a system of reserve money management. In October and December 1988 a follow-up set of financial measures was initiated. The measures were aimed at further improving the effectiveness of monetary management and the efficiency of the financial sector by increasing competition and encouraging the development of the capital market.

In 1989-90 the government continued with its policy of greater financial deregulation through the phasing out of subsidized, directed credits (liquidity credits); a significant relaxation of the rules governing the foreign exchange activities of commercial banks; and a relaxation of the regulations limiting foreign capital from participating in the stock market. The reform of the liquidity credit system will greatly enhance management of base money, improve incentives to assess credit risk and facilitate targeting of priority users, reduce credit market segmentation and induce state banks to make a stronger effort to mobilize deposits from the public.

The government has also embarked on a series of trade and other regulatory reforms, with a view to increasing the competitiveness of the economy as well as ensuring a recovery in economic growth over the medium term. In trade policy, an across the board reduction in nominal import tariffs was announced in 1985, followed by a package of measures designed to provide inputs to exporters at international prices. A more fundamental step was taken in October 1986, when the government announced the first of a series of trade deregulation packages. These reforms sought to reduce the burden of import licensing and signalled the government's intention to move toward tariffs as the principal instrument of import policy. Although some ad hoc changes were introduced in the tariff structure, which resulted in increasing the tariffs of certain specific items, overall the value of imports subject to controls fell from 43 percent in mid-1986 to 21 percent in December 1988. Similarly the proportion of domestic production protected by import licensing restrictions was reduced from 41 percent to 29 percent. To consolidate past progress in this area, the government announced a new series of trade policy reforms in May 1990. This reform further reduced nontariff barriers, lowered tariffs significantly, and eliminated some export restrictions.

Substantial progress was also made in simplifying and reducing other regulatory impediments. During 1986-87 the investment approval process was streamlined, licensing requirements were simplified, the bias against foreign investment reduced and the local content programs made more flexible. In May 1989, the government converted the Investment Priority List into a short negative list, thereby increasing the transparency of the system and opening up new sectors to both domestic and foreign investment. Reforms in the area of customs, ports and maritime transport were also implemented in 1985 and 1988, resulting in greater competition and a significant reduction in freight costs and procedural time.

Impact on Economic Performance. The government's adjustment program has helped to bring down the current account deficit from 7.8 percent of GNP in 1982/83 to 1.9 percent in 1989/90. During the initial phase of adjustment (1983-85), most of the improvement in the balance of payments took place through a reduction in imports. This was achieved mostly through general macroeconomic instruments. Large real exchange rate depreciations served to raise the price of tradables relative to nontradables, thereby inducing a switch in private sector demand away from imports toward domestic production.

By rephasing large capital projects and, in subsequent years, cutting capital expenditures, imports of capital goods were sharply reduced. This was complemented by a redefinition of public expenditure priorities with expenditures diverted away from more import intensive sectors (mining and industry) toward less import intensive sectors (agriculture, education and regional development). Since 1985 however, it has been the dramatic response of non-oil exports, growing at 18.5 percent per annum in real terms during 1986-89, which has led to the narrowing of the current account deficit. While increases have occurred in Indonesia's traditional exports, about 71 percent of the increment has come from a rapidly expanding and diverse base of manufactured goods. In 1989/90 the oil and natural gas sector also performed very well, primarily reflecting the 18.5 percent increase in the price of oil.

Overall export earnings showed a real growth of 9.8 percent in 1989, part of which was offset by a rapid rise in non-oil imports, which increased by 18 percent in real terms. Private sector capital goods' imports accounted for the largest share of this import growth, reflecting the strength of private sector response to deregulation. The financing of the current account deficits and higher amortization payments has been eased considerably in recent years by the receipt of special external assistance in the form of fast disbursing program aid and local cost financing.

The government's fiscal and monetary management has also succeeded in reducing fiscal imbalances and domestic inflation. As a result of the tax reform, non-oil taxes (including those of local governments) grew from 7.4 percent of non-oil GDP in 1982/83 to 11.3 percent in 1989/90. The government's expenditure control measures have also been effective, with total expenditures as a share of GDP declining substantially since 1982/83, despite the large increase in external payments. Inflation, (as measured by consumer price index for 17 cities), decelerated significantly during this period, averaging 7.8 percent from 1983-89 as compared to over 15 percent in the 1970s. In addition to the efforts made to reduce fiscal imbalances and promote public savings, the deregulation of interest rates in June 1983 helped to mobilize private financial resources and increase the attractiveness of domestic deposits.

The large decline in oil revenues convinced the government of the need to improve economic efficiency and stimulate the private sector. The comprehensive deregulation measures undertaken since 1985 have been in response to this need. Although the full benefits of these measures have not been reaped as yet, there are signs of considerable improvement in economic efficiency in recent years. There has also been an improvement in the structure of the economy with a substantial decline in the importance of oil and natural gas revenues in the budget and balance of payments.

Despite the loss of oil revenues, Indonesia has achieved a higher then expected rate of economic growth during the 1980s. Total GDP grew by an average of 5.5 percent per annum during 1983-89, and most of this growth came from the non-oil economy. However the deterioration in the terms of trade did have an adverse effect on domestic incomes during 1981-86, and the resulting shortfall of resources led to substantial cutbacks in public investment, as well as a reduction in the growth of private consumption. Until 1985, private investment also fell significantly. However economic developments in recent years indicate that the economy is responding strongly to the structural reforms undertaken so far. Economic growth is more broadly based than in the past, with agriculture, manufacturing and services all exhibiting strong rates of growth in 1989. The deregulation measures, in conjunction with sound macroeconomic policies, have led to an encouraging recovery of private investment, which increased by about 12 percent per annum during 1986-89. Furthermore, data on foreign and domestic investment approvals indicate that a significant proportion of these investments are planned for export oriented activities.

Despite the government's success in reducing financial imbalances and its cautious approach to external borrowing, Indonesia's debt burden rose sharply due to the adverse external environment since the early 1980s. The depreciation of the U.S. dollar between 1985 and 1988 added US$12.76 billion (31 percent) to Indonesia's public debt at end-1988 and US$1.9 billion (25 percent) to its debt servicing during 1988. Over the same period, oil prices fell by about one half, severely reducing Indonesia's export earnings and capacity to service debt.

In spite of this high level of debt and the adverse external shocks, Indonesia has not faced a foreign exchange crisis or a cash flow constraint on the payment of its external debt obligations. This reflects both the government's cautious approach to external borrowing and its responsive macroeconomic management, as well as the strong support provided by the donor community. Although the government's strict restraint on import-related and commercial credits has limited the total net transfer of resources to Indonesia, it has also improved the maturity and term structure of external debt.

As a result Indonesia's debt structure is now better than most developing countries, with a relatively high share of concessional debt and a relatively low share of variable interest debt. Combined with the efforts to promote non-oil exports and improve efficiency, this prudent external borrowing has already led to an improvement in Indonesia's debt service indicators. The debt service to exports ratio on medium- and long-term loans for example, has fallen from 38.0 percent in 1986 to 32.1 percent in 1989.

Finally, a particularly noteworthy feature of the adjustment process has been the substantial reduction in the incidence of poverty. Recent studies indicate that poverty continued to decline during the 1980s—using the official poverty line, the incidence of poverty fell from 22 percent in 1984 to 17 percent in 1987. There was also a decline in the absolute number of poor, which fell from 35 million in 1984 to 30 million in 1987. Furthermore there are indications that the distribution of income may have improved slightly. The substantial reduction in poverty can largely be attributed to the government's rapid response to external shocks: (a) the price and exchange rate policies, which served to protect the agricultural sector; (b) the complementary trade reform and industrial deregulation, which served to improve economic incentives and efficiency in the private sector, enabling it to grow rapidly and absorb labor at higher real wages; and (c) the protection of poverty-related expenditures in the reduced public expenditure program.

Development Issues and Prospects

Indonesia is emerging from a difficult but successful adjustment period with a more robust, diversified, and competitive economy. The strong private sector growth, and surge in investment and exports, particularly in 1989, indicate that foundations are being laid for a period of sustained and relatively rapid growth. While living standards improved considerably in the 1980s—with non-oil GDP growing somewhat more rapidly than in the recent past—sustained growth is needed to enable further progress in reducing poverty and to provide productive employment for the growing labor force. The key elements which would provide the foundations for sustained growth can be grouped into three inter-related areas: continuation of the government's prudent macroeconomic management; further promotion of private sector development; and the provision of efficient public sector programs to support private sector development and poverty reduction.

Macroeconomic Reforms

Prudent macroeconomic management will continue to be the cornerstone of a strategy to sustain growth. To achieve a higher rate of growth of the non-oil economy, fixed investment will have to increase quite rapidly. At the same time, in view of Indonesia's debt burden, it will be necessary to contain and gradually reduce the current account deficit. Given the need to reduce reliance on foreign savings, national savings will need to grow even faster than investment. To this end, continued progress will need to be made in raising public savings through further improvements in public resource mobilization, a reduction in the major remaining budget subsidies and a careful selection and design of public expenditure programs in accordance with the government's priorities. This will need to be supported by a balanced monetary policy to avoid pressures on prices and the balance of payments. A careful coordination of monetary and fiscal policies will also allow a reduction in the margin between domestic and international interest rates by lowering inflation and expectations of exchange rate devaluations. This, in turn, will increase the profitability of investments.

Further promotion of private sector investment will require, in addition to maintaining stable macroeconomic conditions and the real effective exchange rate at a competitive level, sustained progress in regulatory and trade reforms. The new trade reform measures of May 1990 reflect the government's commitment to continue to improve economic efficiency and promote private sector development. There is, however, scope for further reductions in nontariff barriers. The restructuring of the economy would be facilitated by continued effort to rationalize the tariff structure, including the elimination of remaining split tariffs and surcharges, as well as by a further lowering of export restrictions. Reforms in domestic incentives and the regulatory framework have so far focussed on areas that have been the most urgent and implementable in the short run.

The main areas for further reform are: maintaining a short negative investment list by opening up additional areas for domestic and foreign investment; further streamlining the licensing system by eliminating licenses where possible; and further easing divestiture obligations of foreign investors. At the same time, a start needs to be made on the more complex longer-run issues of developing a modern corporate legal system and reforming the factor markets. The reform process also needs to be supported by continued efforts to provide basic infrastructure and develop sound financial sector services. Indonesia has already made considerable progress in promoting the financial system, especially commercial banking and the stock exchange.

Four items remain as priorities: strengthening the prudential regulations of financial markets; enacting updated laws governing financial institutions and commercial relations; bolstering managerial and technical expertise in financial institutions; and strengthening state banks by improving their portfolios. Finally a framework for environmental management needs to be put in place, especially since private sector development depends heavily on the availability of natural resources, particularly water and land.

Successful management of the public sector in particular calls for a sharper focus of public spending in line with two broad priorities. It should provide adequate basic infrastructure and services to remove potential constraints on private sector growth, such as agricultural support services, power, telecommunications and transport. It should also meet the needs of the poor for basic services (primary education, community health, water supply and sanitation and other poverty related infrastructure). Ensuring the effectiveness of public spending will require continued improvements in program management and implementation by the government departments. At the same time, there will be a need to maintain the ongoing effort to improve the efficiency and performance of the public enterprise sector.

Prospects

Continued implementation of the strategy outlined above would help Indonesia achieve the growth in the non-oil economy needed to maintain the progress on reductions in poverty and in the debt burden. To sustain this rate of growth in the non-oil economy while maintaining external balance, non-oil exports will need to grow significantly, particularly over the next three years. With progress in non-oil exports, the current account deficit could decline from its current level of around 2 percent of GNP; the non-interest current account is expected to remain in surplus throughout.

While the current account deficit as a percentage of GDP is likely to fall in the medium term, its absolute size will increase slightly, reflecting a faster GDP growth rate. This, combined with higher debt service payments and the need to build up reserves, will cause the annual financing requirement to rise. An increasing share of the needed financing can be obtained from private sources: private investment, private non-guaranteed capital flows and commercial borrowing by the government. However, as commercial credits are more expensive than official assistance, their use should be moderated to help ease the debt burden. It is important therefore that the Inter-governmental Group on Indonesia continues to provide the major share of Indonesia's external financing requirements over the next few years. Indonesia's situation continues to justify special assistance in the form of fast-disbursing program aid and local cost financing, although in declining amounts. While current expectations are that special assistance could be phased out after 1990/91, a more gradual phasing out of special assistance may be required if actual developments are less favorable than anticipated. As special assistance declines however, there will be a need to increase the level of project assistance and to shift its composition toward relatively quick disbursing operations such as sector loans which can provide a flexible form of financing well suited to Indonesia's needs.

With appropriate macroeconomic policies and a prudent borrowing strategy, the growth in Indonesia's debt will continue to slow down in the next few years. Medium- and long-term public and private debt outstanding and disbursed is not expected rise much in 1990, from US$48.3 billion at the end 1989 to US$49.2 billion at the end of 1990. Most of the increase in official borrowing in the last few years has been in the form of concessional loans. Consequently there has been an improvement in the maturity and term structure of public debt. Combined with the expected solid economic performance, this should lead to a steady improvement in the main debt indicators. The total medium- and long-term debt service ratio has already declined to 32.1 percent (end 1989) from a peak of 38 percent in 1986 and is expected to fall further.

INDONESIA

Mid-1988 Population (mils.)	175
1988 Per Capita GNP in US$:	470

	A. Shares of Gross Domestic Product *(from current price data)*						**B. Growth Rates(% per annum)** *(from constant price data) /a*				
	1965	*1973*	*1980*	*1987*	*1988*	*1989p*	*1965-73*	*1973-80*	*1983-88*	*1988*	*1989p*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	7.8	7.1	5.1	5.7	7.3
Net Indirect Taxes	2.3	4.6	3.3	..	..	..	..	..	..	..	..
Agriculture	56.0	38.2	24.0	23.3	24.1	..	4.8	3.8	3.1	4.2	4.1
Industry	12.6	26.5	41.7	36.4	35.7	..	15.2	7.3	5.1	5.1	8.2
(of which Manufacturing)	8.4	10.6	13.0	17.0	18.5	..	9.0	14.7	13.1	13.0	..
Services	31.4	35.2	34.3	40.3	40.2	..	5.0	10.1	6.4	7.0	8.3
Resource Balance	-0.1	1.7	12.8	2.6	3.5	3.2	..	..	..	..	..
Exports of GNFS	5.3	20.3	33.0	23.7	24.9	25.3	12.6	5.8	-0.8	6.8	9.1
Imports of GNFS	5.4	18.6	20.2	21.1	21.4	22.2	17.6	12.6	-4.4	4.1	12.2
Total Expenditures	100.1	98.3	87.2	97.4	96.5	96.8	7.4	9.7	4.0	5.0	7.9
Total Consumption	92.3	77.5	62.9	75.0	74.3	73.4	5.7	9.0	4.9	3.8	6.8
Private Consumption	87.2	67.8	52.3	65.2	64.9	63.9	5.2	8.3	5.2	4.0	6.8
General Government	5.1	9.7	10.5	9.8	9.4	9.4	9.8	13.9	2.9	2.4	6.7
Gross Domestic Investment	7.8	20.8	24.3	22.5	22.2	23.5	17.5	11.9	1.9	9.3	11.6
Fixed Investment	7.8	..	21.6	19.2	20.0	21.5	..	..	0.2	10.3	13.0
Changes in Stocks	..	..	2.7	3.3	2.2	2.0	..	..	..	..	..
Gross Domestic Saving	7.7	22.5	37.1	25.0	25.7	26.6	28.4	17.1	-2.2	12.3	9.7
Net Factor Income	1.2	-1.7	-4.1	-6.1	-6.0	-5.4	..	..	..	..	..
Net Current Transfers	..	0.0	0.0	0.1	0.1	0.1	..	..	..	..	..
Gross National Saving	..	20.8	33.0	19.1	19.9	21.4	..	24.2	-1.6	16.4	10.3

In billions of Rupiah (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	30,521	54,210	87,878	124,508	131,562	141,186	7.8	7.1	5.1	5.7	7.3
Capacity to Import	3,388	13,397	49,578	29,501	31,833	35,050	23.9	16.2	-6.6	7.9	10.1
Terms of Trade Adjustment	-6,880	-11,647	13,215	0	324	684	..	..	..	..	..
Gross Domestic Income	23,641	42,563	101,093	124,508	131,886	141,870	8.1	11.3	2.7	5.9	7.6
Gross National Product	27,905	48,249	76,386	116,938	124,023	133,040	7.5	6.8	5.9	6.1	7.3
Gross National Income	21,025	36,602	89,601	116,938	124,348	133,724	7.8	11.6	3.2	6.3	7.5

			(1987 = 100)				*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989p*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989p*
Consumer Prices (IFS 64)	54.4	86.5	91.5	100.0	108.0	..	34.0	17.0	8.7	8.0	..
Wholesale Prices (IFS 63)	50.4	82.6	84.5	100.0	107.2	..	..	20.3	9.8	7.2	..
Implicit GDP Deflator	55.7	86.4	86.4	100.0	107.3	117.7	63.5	19.9	8.2	7.3	9.7
Implicit Expenditures Defl.	52.1	80.2	87.1	100.0	106.9	117.1	63.0	16.0	10.1	6.9	9.5

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.4	2.3	2.1
Labor Force	..	..	..
Gross Natl. Income p.c.	5.3	9.1	1.1
Private Consumption p.c.	2.8	5.9	3.1
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	2.3	1.8	-0.9
Marginal Savings Rates:			
Gross National Saving	..	46.6	-8.6
Gross Domestic Saving	42.1	49.9	1.7
ICOR (period averages):	..	..	5.0

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	70.5	63.5	57.2	53.8
Industry	9.0	11.1	13.1	15.7
Services	20.5	25.4	29.7	30.5
Total	100.0	100.0	100.0	100.0

Notes:

Data in these tables (expressed in 1987 prices) are not directly comparable to the data in the text which are based on revised national accounts in 1983 prices.

Gross Domestic Investment is not disaggregated as change in stocks derived as a residual.

p = preliminary data
na = not applicable
.. = not available

E. Merchandise Exports	Volume Index (1987=100) 1981	1985	1986	1987	1988	1989p	Value at Current Prices (billions US$) 1981	1985	1986	1987	1988	1989p
Oil & LNG	110.9	98.8	103.5	100.0	100.7	106.2	19	12	7	9	8	9
Rubber	75.9	90.3	88.8	100.0	101.8	107.0	1	1	1	1	1	1
Coffee	82.6	107.1	112.9	100.0	116.8	129.2	0	1	1	0	1	0
Palm Oil	29.3	71.6	80.8	100.0	114.6	143.7	0	0	0	0	0	0
Manufactures	17.0	66.8	70.8	100.0	123.1	154.7	1	2	3	5	6	8
Other Exports	..	..	..	..	..	..	2	2	2	3	4	4
Total Exports FOB	87.3	90.4	94.5	100.0	105.9	116.3	23	19	14	18	20	23
F. Merchandise Imports												
Food	128.0	84.2	80.7	100.0	102.8	106.6	2	1	1	1	1	1
Fuel and energy	246.9	160.1	107.8	100.0	82.4	98.8	5	3	2	2	2	3
Other Consumer Goods	143.7	93.5	89.5	100.0	106.8	111.3	1	0	0	0	0	1
Other Intermed. Goods	112.9	112.1	95.5	100.0	107.9	126.0	5	5	4	5	6	7
Capital goods	148.6	113.7	96.8	100.0	108.0	133.5	7	5	5	6	6	8
Total Imports CIF	152.7	118.3	97.3	100.0	103.6	122.7	20	14	13	14	16	19

G. Merchandise Terms of Trade	1981	1985	1986	1987	1988	1989p
Merch. Exports Price Index	142.8	111.4	80.4	100.0	103.8	111.3
Merch. Imports Price Index	91.1	85.6	92.3	100.0	106.8	109.1
Merch. Terms of Trade	156.7	130.1	87.1	100.0	97.2	102.0

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989p
Exports of Goods & NFS	22,088	19,371	15,240	18,271	20,725	24,965
Merchandise (FOB)	21,762	18,527	14,396	17,206	19,382	23,416
Non-Factor Services	327	844	844	1,065	1,343	1,549
Imports of Goods & NFS	16,076	17,840	16,194	16,972	18,341	21,439
Merchandise (FOB)	12,599	12,705	11,938	12,532	13,656	18,985
Non-Factor Services	3,478	5,135	4,256	4,440	4,685	2,454
Resource Balance	6,012	1,531	-954	1,299	2,384	3,526
Net Factor Income	-3,207	-3,542	-3,216	-3,654	-3,983	-5,787
(interest per DRS)	1,181	1,915	2,362	2,775	2,918	3,004
Net Current Transfers	0	61	71	86	99	130
(workers' remittances)	..	61	71	86	99	130
Curr. A/C Bal. before Off. Transf.	2,805	-1,950	-4,099	-2,269	-1,500	-2,131
Net Official Transfers	201	27	188	171	311	410
Curr. A/C Bal. after Off. Transf.	3,006	-1,923	-3,911	-2,098	-1,189	-1,721
Long-Term Capital Inflow	2,148	1,880	2,882	2,510	1,883	2,633
Direct Investment	180	310	258	446	542	600
Net LT Loans (DRS data)	1,613	1,287	1,831	2,471	1,822	2,133
Other LT Inflow (Net)	355	283	793	-407	-481	-101
Total Other Items (net)	-2,725	553	26	218	-795	-2,008
Net Short Term Capital	-818	-98	1,295	970	329	299
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-1,907	651	-1,269	-752	-1,124	-2,307
Changes in Net Reserves	-2,428	-510	1,003	-630	101	1,096
Net Credit from the IMF	..	-367	5	665	-93	0
Other Reserves Changes	-2,428	-143	998	-1,294	194	1,096
As Share of GDP:						
Resource Balance	7.7	1.8	-1.2	1.7	2.8	3.8
Interest Payments	1.5	2.2	3.0	3.7	3.5	3.2
Current Account Balance	3.6	-2.2	-5.1	-3.0	-1.8	-2.3
Memorandum Items:						
Reserves excl. Gold (mil. US$)	5,392	4,974	4,051	5,592	5,048	5,454
Reserves incl. Gold (mil. US$)	6,803	5,989	5,265	7,095	6,322	6,699
Official X-Rate (LCUs/US$)	626.99	1110.58	1282.56	1643.85	1685.70	1770.06
Index Real Eff. X-R Base 1980	100.00	89.75	69.12	50.78	48.99	..
GDP (millions of current US$)	78,013	87,205	79,889	75,744	83,726	93,895

Notes:

Merchandise trade data of Sections E & F is on a fiscal year basis.

p = preliminary data
.. = not available

I. Central Government Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989p	Growth Rates 1980-84	1986	1987	1988	1989p
Current Receipts	21.1	19.9	17.3	18.0	16.8	18.3	16.4	-11.2	28.7	3.8	26.4
Current Expenditures	14.1	13.3	14.0	13.6	12.9	13.0	11.9	6.3	15.2	11.2	16.6
Current Budget Balance	7.0	6.5	3.3	4.4	3.9	5.3	na	na	na	na	na
Capital Receipts							na	na	na	na	na
Capital Expenditures	9.8	9.2	8.7	6.6	6.8	6.8	12.2	-5.6	19.5	-4.3	15.4
Adjustments							na	na	na	na	na
Overall Deficit	-2.9	-2.9	-4.3	-2.2	-2.9	-1.5	na	na	na	na	na
Official Capital Grants		0.1	0.1	0.1	0.1	0.1	na	na	na	na	na
External Borrowing (net)	2.7	1.9	4.4	1.9	3.0	1.6	16.6	133.3	-17.1	13.8	-38.0
Domestic Non-Bank Financing							na	na	na	na	na
Domestic Bank Financing	0.2	1.0	0.9	0.3	-0.1	-0.2	na	na	na	na	na

J. External Capital Flows, Debt and Debt Burden Ratios /a	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989p	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989p
Public & Publicly Guar. LT	1,611	1,277	1,813	2,194	1,530	1,785	15,020	26,845	32,928	41,430	41,258	41,025
Official Creditors	807	1,065	1,072	2,548	2,790	2,374	9,556	15,169	18,766	25,038	26,620	27,924
Multilateral	393	792	775	1,322	1,703	1,410	1,834	5,306	6,973	9,629	10,723	11,885
of which IBRD	301	611	580	1,004	1,219	784	1,040	3,590	5,058	7,391	8,003	8,542
of which IDA	40	33	12	9	-5	-7	566	844	857	866	861	854
Bilateral	414	273	297	1,227	1,088	964	7,722	9,863	11,793	15,409	15,897	16,038
Private Creditors	804	212	741	-355	-1,260	-588	5,464	11,677	14,162	16,392	14,638	13,101
Suppliers	-54	332	-394	-406	-565	-626	1,567	3,741	4,170	4,758	4,109	3,051
Financial Markets	858	-120	1,135	51	-695	38	3,897	7,936	9,992	11,634	10,529	10,050
Private Non-guaranteed	2	10	18	277	292	348	3,142	3,810	3,828	4,105	4,397	4,746
Total LT	1,613	1,287	1,831	2,471	1,822	2,133	18,162	30,655	36,756	45,535	45,655	45,771
IMF Credit	0	-385	0	606	-56	0	0	46	51	716	623	608
Net Short-Term Capital	-818	-98	1,295	970	329	299	2,775	6,049	6,310	6,417	6,322	6,300
Total incl. IMF & Net ST	795	804	3,126	4,047	2,095	2,432	20,937	36,750	43,117	52,668	52,600	52,679

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989p
Share of Total Long-Term DOD						
1. IBRD as % of Total	5.72	11.71	13.76	16.23	17.53	18.66
2. IDA as % of Total	3.12	2.75	2.33	1.90	1.89	1.86
3. IBRD+IDA as % of Total	8.84	14.46	16.09	18.13	19.41	20.53
Share of LT Debt Service						
1. IBRD as % of Total	4.25	7.64	12.16	13.32	12.53	13.55
2. IDA as % of Total	0.19	0.24	0.23	0.18	0.15	0.17
3. IBRD+IDA as % of Total	4.44	7.88	12.39	13.51	12.68	13.72
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	81.78	151.76	229.11	240.70	214.01	179.02
2. IMF Credit/Exports	0.00	0.23	0.32	3.79	2.92	2.38
3. Short-Term Debt/Exports	12.50	29.95	39.33	33.92	29.63	24.64
4. LT+IMF+ST DOD/Exports	94.28	181.93	268.76	278.40	246.57	206.04
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	23.28	35.15	46.01	60.12	54.53	48.75
2. IMF Credit/GDP	0.00	0.05	0.06	0.95	0.74	0.65
3. Short-Term Debt/GDP	3.56	6.94	7.90	8.47	7.55	6.71
4. LT+IMF+ST DOD/GDP	26.84	42.14	53.97	69.53	62.82	56.10
Debt Service /Exports						
1. Public & Guaranteed LT	7.94	19.72	27.31	29.15	34.23	26.54
2. Private Non-guaranteed LT	4.73	5.13	5.29	5.54	5.52	6.18
3. Total Long-Term Debt Service	12.67	24.85	32.59	34.69	39.75	32.73
4. IMF Repurchases+Serv. Chgs.		2.00	0.02	0.12	0.43	0.20
5. Interest only on ST Debt	1.22	2.71	3.13	3.00	3.06	2.54
6. Total (LT+IMF+ST Int.)	13.88	29.57	35.75	37.81	43.69	35.47

Notes:

The government finance data is on a a fiscal year basis.

p = preliminary data
na = not applicable
.. = not available

Jamaica

Jamaica is one of the larger Caribbean islands. Its total area is 11 thousand square kilometers, 45 percent under agriculture. Its population, growing at about 1.4 percent per year, now totals 2.4 million, 55 percent living in urban areas. A middle-income country with a per capita GNP of US$1,080 (1988), Jamaica is well-endowed with natural resources, has a relatively well-educated and skilled labor force in adequate supply, enjoys proximity to North American markets, and possesses a well-developed financial system. The country's economy is, however, highly sensitive to international price and demand changes, and is entirely dependent on imported oil for commercial energy. Its labor and capital have also proved likely to leave the country in periods of prolonged economic uncertainties.

The principal economic activities in Jamaica are bauxite/alumina mining and processing, tourism, manufacturing, and, in terms of employment, agriculture. Together, these sectors account for about 55 percent of the country's GDP, 50 percent of its employment and 75 percent of its foreign exchange earnings (other services and transfers account for the rest of the foreign exchange earnings). Jamaica is well known for its bauxite/alumina exports; its tourist attractions, especially the tropical resorts along its northern coast; and its agricultural exports of bananas, sugar, rum, coffee, ginger and pimento. More recently, non-traditional exports have also been developed, based on agriculture (e.g., winter vegetables; tropical tubers; fruits, such as avocados and melons; and cut flowers and foliage) as well as manufacturing, especially garments, furniture and leather goods.

Economic Policies and Performance to 1980

From its independence in 1962 and up to 1972, Jamaica enjoyed steady growth, with GDP expanding at an average rate of 5 percent per year. Direct foreign investment in bauxite, alumina and tourism, combined with domestic financial stability, contributed to this performance. In that same period, however, overall employment grew at a much lower rate, reflecting in part a shift away from labor-intensive agriculture to bauxite/alumina and import-substitution manufacturing.

Between 1974 and 1980, the economy was in sustained contraction resulting from external shocks and inimical domestic policies. On the external side, increases in energy costs, the impact of the mid-1970s recession in the industrial countries on sugar and aluminum, and the increase in interest rates in international capital markets, all affected Jamaica negatively. Domestically, the government's programs to tackle unemployment and enhance the role of the state in the economy (through, for example, a heavy taxation of the bauxite sector) led to an overextended public sector and a disruption of production. At the same time an increasingly populist approach by the government eroded the confidence of the private sector, both domestic and foreign, contributing to a reduction of productive investment and an outflow of capital and skilled manpower.

By 1980 the economy had suffered badly, with GDP and its components well below 1973 levels in real terms. Production and exports were 15 percent to 20 percent below 1973; imports, 30 percent below 1973; and investment, 65 percent below 1973. The only item that had grown in real terms by 1980 was government consumption, which was about 20 percent above its 1973 level. Jamaica's financial situation had also become precarious. The overall deficit of the central government exceeded 14 percent of GDP in 1980, having deteriorated from about 5 percent of GDP in 1973. Nearly 60 percent of the deficit in 1980 was financed by domestic bank credit, compared to less than 20 percent in 1973. The monetization of government deficits contributed to pressure on the domestic price level; despite pervasive price controls, the annual rate of inflation accelerated from 18 percent in 1973 to 28 percent in 1980 and averaged around 20 percent per year in between. Another consequence of fiscal and monetary expansion was a deterioration of the balance of payments. Between 1973 and 1980, Jamaica drew down a total of about US$400 million of its international reserves. By 1980, gross reserves covered only four weeks of import payments, compared to six weeks in 1973.

Economic Policies and Performance since 1980

By all indicators, Jamaica's economic situation at the beginning of the 1980s was not viable. The excessive regulation and the inward orientation of the economy for nearly a decade had led to severe losses of output, employment and revenues. To alter that situation, Jamaica embarked on a series of reforms aimed at liberalizing the economy, developing exports and raising domestic savings, especially of the public sector.

The program of economic liberalization has involved elimination of the import licensing system; removal of quantitative import restrictions and their replacement with tariffs; and a phased lowering of tariffs, consistent with Jamaica's obligations under the Caribbean Community's Common External Tariff. Another element of liberalization has been the reduction of the public sector through retrenchment, particularly in local government and in the temporary workforce of the central government, and through partial and/or complete divestiture of public enterprises. Examples of activities and enterprises wholly or substantially sold off by the government include urban transportation, banana production, hotels, commercial banking, cement production and telecommunications operations.

Export development policies for traditional, primary items (bauxite, alumina, sugar, bananas) have emphasized lower costs of production to induce exporters to regain world market shares. Thus, banana and sugar production and marketing have been devolved to the more efficient private operations, while the previously onerous bauxite levy regime has been altered and new investments undertaken to enhance bauxite mining and processing efficiency. The tourism sector has been promoted vigorously to increase earnings. And, to raise nontraditional manufactured exports, government policy has been oriented to reducing anti-export bias through tariff reforms, expansion of public and private export processing zones, and upgrading of port and shipping facilities.

Export competitiveness was enhanced by establishment of a twice-weekly foreign exchange auction system from 1983, leading to a nearly 40 percent depreciation of the real effective value of the Jamaican dollar by 1985. Subsequently, this competitiveness was maintained by the depreciation of the U.S. dollar and the lowering of inflation in Jamaica through mid-1988. Between then and mid-1989, however, the Jamaican dollar appreciated by about 10 percent in real terms. From July 1989, the Jamaican dollar came under more pressure until, in November, the government fixed the rate at J$6.5 per U.S. dollar. In February 1990, the rate was devalued to J$7 per U.S. dollar, representing a cumulative nominal depreciation of 21 percent in a period of six months, and restoring the real effective rate of the Jamaican dollar to its mid-1988 level.

The reforms to raise domestic savings, especially of the public sector, have included revenue measures — such as the overhaul of the tax system to boost tax buoyancy and substantial increases in tariffs and charges of various public enterprises — and expenditure controls, such as retrenchment of public sector employment, reduction of capital expenditures and cutbacks in subsidies. In addition, monetary policy, particularly over the last four years, has encouraged domestic savings via significantly positive real interest rates.

Jamaica's economy has responded positively, albeit slowly, to the reforms implemented since 1980. In the first half of the past decade, despite massive capital inflows, economic performance improved very little. While the policy adjustments were being put in place then, bauxite and alumina exports virtually collapsed, from around US$735 million in 1980 to US$290 million in 1985. There was no real economic growth during 1981-85. At the same time, on an annual average basis, the overall public sector deficit equaled 16 percent of GDP, inflation ran at 15 percent, and the external current deficit equalled 14 percent of GDP. Official grants of US$320 million in 1981-85 (compared to US$190 million in 1976-80) still left sizable capital requirements that were met with external loans, pushing Jamaica's external debt in that period from US$2,140 million (70 percent of GDP) to US$3,879 million (193 percent of GDP). As a result, the debt service ratio rose from 30 percent to 70 percent before reschedulings, and from 26 percent to 45 percent after reschedulings.

In the latter half of the 1980s, an economic turnaround began, aided by vastly improved terms of trade and by the intensification of domestic economic reforms. The latter included determined efforts to lower the public sector deficit and enhance export competitiveness. Between 1986-89, economic growth averaged 3 percent per year, the overall public sector deficit equalled about 4 percent of GDP, inflation averaged 10 percent a year and the external current deficit (excluding grants) equalled 6 percent of GDP. Were it not for the dislocation caused by a major hurricane, Gilbert, in September 1988, Jamaica's performance would have been better still, especially in terms of economic growth, and reduction of the public sector deficit.

The containment of external current account deficits, higher inflows of direct foreign investment and increased grant receipts during 1986-89 helped Jamaica to stabilize the stock of its external debt at around US$4 billion. This amount of debt outstanding is, however, still large (around 130 percent of GDP) and the debt service burden remains onerous, with interest payments equivalent to 8 percent of GDP in 1989 and the debt service ratio, after reschedulings, amounting to 36 percent in 1989.

Development Issues and Growth Prospects

Domestic policy reforms from the turn of this decade and favorable external circumstances, especially in 1986-88, improved Jamaica's economy considerably during the 1980s compared to the 1970s. The economy is more liberal and buoyant now, while the rate of unemployment, excluding non-seekers, has declined, from around 10 percent in the 1970s and the first half of the 1980s to around 8 percent now. The export base has changed, with nontraditional agricultural and manufactured items, tourism, and other nonfactor services now more prominent than the traditional items of bauxite, alumina, sugar and bananas. In the 1970s, the nontraditional goods and services comprised 40 percent of total exports; that share rose to 50 percent by the mid-1980s and is now about 55 percent. And, led by a turnaround of public savings, the rate of domestic savings now, 18 percent, is substantially higher than the 10 percent a decade ago.

Jamaica's stabilization and adjustment process, however, must still be advanced. In the short term, it will be important to ensure viable financial balances via careful demand management and a realistic exchange rate policy. Beyond that, the country needs to continue to promote and diversify exports and increase savings in view of its substantial debt burden. Accordingly, the medium-term economic program will need to focus on: maintenance of a flexible exchange rate policy; further rationalization of the trade regime; important fiscal reforms, such as the introduction of the general consumption tax; improved programming of public expenditures; elimination of the remaining agricultural price interventions; and the design and implementation of viable sector strategies, especially industry and economic services.

The major impetus to future growth is expected to arise from increased output of bauxite and alumina, plans and markets for which are already secured; rehabilitation of export agriculture, especially bananas and coffee; construction activities; further expansion of tourism; and improvements in social infrastructure. At the same time, the growth of real consumption should remain below that of real GDP to permit domestic savings, especially public sector savings, to finance between 55 percent to 60 percent of the country's estimated public investment outlays in 1990/91-1992/93.

On present estimates, Jamaica's commodity terms of trade over the next five years are expected to worsen somewhat. Hence, strong trade policies, including continued promotion of tourism, will be needed to reduce progressively the external current account deficit from an equivalent of 10 percent of GDP in 1989/90. Along with the anticipated improvements in the external current account, Jamaica will need to continue attracting private and official capital, including exceptional financing (e.g., reschedulings), carefully matched to the medium-term objective of reducing the country's debt overhang and its debt service burden.

External financing for 1990/91 seems secure for Jamaica following various resource mobilization arrangements effected during February-April 1990. These arrangements include: an IMF stand-by program, commercial bank and bilateral debt reschedulings, and pledges of official grants and loans announced during meetings of the Caribbean Group for Cooperation in Economic Development (CGCED).

JAMAICA

Mid-1988 Population (mils.)	2
1988 Per Capita GNP in US$:	1,080

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.2	-3.2	0.5	0.8	3.0
Net Indirect Taxes	8.8	8.5	8.1	15.7	..	..	..	..	..	..	..
Agriculture	9.9	6.9	8.3	6.1	5.6	..	0.6	1.0	0.9	-4.4	1.5
Industry	37.1	36.8	38.0	40.9	42.0	..	4.5	-5.4	0.0	1.2	5.1
(of which Manufacturing)	17.0	16.7	16.2	22.3	21.2	..	4.0	-4.7	1.6	-0.9	4.0
Services	52.9	56.3	53.8	53.1	52.4	..	6.8	-1.4	0.9	1.0	1.5
Resource Balance	-3.6	-9.6	-2.1	0.3	-8.4	-11.2	..	..	..	..	..
Exports of GNFS	33.3	31.5	51.1	54.8	48.8	44.3	4.8	-2.9	7.2	2.0	9.2
Imports of GNFS	36.9	41.1	53.2	54.5	57.2	55.5	7.3	-6.2	8.6	18.2	8.5
Total Expenditures	103.6	109.6	102.1	99.7	108.4	..	6.2	-4.4	1.2	9.6	3.1
Total Consumption	77.1	78.1	86.4	77.1	80.4	..	5.1	0.7	1.7	9.7	9.3
Private Consumption	68.9	61.8	66.0	62.5	64.9	..	3.9	0.0	1.8	..	..
General Government	8.2	16.3	20.3	14.6	15.5	..	13.6	3.5	-1.5	..	..
Gross Domestic Investment	26.5	31.5	15.7	22.6	27.1	..	7.5	-14.4	-0.3	9.4	-18.0
Fixed Investment	23.9	26.1	14.5	21.8	..	..	6.3	-13.4	-1.5	..	..
Changes in Stocks	2.6	5.4	1.2	0.9	..	..	..	..	..	..	..
Gross Domestic Saving	22.9	21.9	13.6	22.9	18.7	..	4.7	-10.9	0.1	-33.4	-59.8
Net Factor Income	-2.3	-1.6	-6.7	-11.8	-13.1	..	..	..	..	..	..
Net Current Transfers	2.0	1.8	3.1	4.1	13.5	3.5	..	..	..	..	..
Gross National Saving	22.7	22.2	10.0	15.3	19.1	..	5.8	-14.1	-2.4	-0.4	50.1
In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	12,971	18,656	14,717	15,717	15,838	16,315	5.2	-3.2	0.5	0.8	3.0
Capacity to Import	3,969	5,652	4,999	8,618	8,639	8,771	4.1	-1.9	10.2	0.2	1.5
Terms of Trade Adjustment	-766	-1,077	-529	0	-151	-827	..	..	..	..	..
Gross Domestic Income	12,205	17,579	14,189	15,717	15,687	15,489	5.0	-2.8	1.4	-0.2	-1.3
Gross National Product	12,697	18,406	13,798	13,869	13,679	14,220	5.6	-4.2	-0.8	-1.4	4.0
Gross National Income	11,931	17,328	13,270	13,869	13,528	13,391	5.4	-3.9	0.1	-2.5	-1.0

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	37.8	81.5	93.8	100.0	108.3	123.8	7.4	20.9	15.6	8.3	14.3
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	32.3	76.6	89.3	100.0	111.4	130.9	6.0	18.7	18.7	11.4	17.5
Implicit Expenditures Defl.	33.7	81.6	88.6	100.0	111.4	..	6.2	18.4	17.3	11.4	..

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	1.5	1.3	1.4
Labor Force	..	..	..
Gross Natl. Income p.c.	3.9	-5.2	-1.3
Private Consumption p.c.	2.4	-1.3	0.3
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.4	2.0	16.4
Marginal Savings Rates:			
Gross National Saving	21.1	62.8	1324.3
Gross Domestic Saving	19.7	58.6	78.9
ICOR (period averages):	..	-10.9	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	37.2	32.5	31.3	..
Industry	19.9	17.5	16.4	..
Services	42.9	50.0	52.3	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	*Volume Index* 1980	1985	1986	1987	1988	1989	*Value at Current Prices (millions US$)* 1980	1985	1986	1987	1988	1989
X.MET.AL	151.5	100.6	97.4	100.0	100.2	121.5	537	212	205	224	307	332
X.MET.X	156.5	58.8	90.3	100.0	96.7	183.9	198	78	90	113	105	155
X.FOOD.SUGAR	97.1	111.7	105.5	100.0	112.6	116.7	55	50	62	74	89	93
X.FOOD.BANANA	99.4	39.2	60.9	100.0	82.3	245.4	10	4	9	19	16	49
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	74.7	76.7	80.3	100.0	69.8		163	225	224	278	315	423
Total Exports FOB	117.1	80.8	85.6	100.0	102.0	148.8	963	569	590	708	832	1,052
F. Merchandise Imports												
Food	87.7	78.0	86.1	100.0	..	..	198	199	198	195	240	243
Fuel and energy	119.6	94.3	120.5	100.0	..	..	445	368	195	235	192	245
Other Consumer Goods	..	..	..	..	..	..	59	76	101	140	164	140
Other Intermed. Goods	..	..	..	..	..	..	354	218	231	318	156	193
Capital goods	..	..	..	..	..	..	105	283	244	347	316	304
Total Imports CIF	70.0	77.0	89.4	100.0	..	..	1,160	1,144	969	1,234	1,428	1,547

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	116.1	99.4	97.3	100.0	115.2	99.8
Merch. Imports Price Index	134.4	120.6	87.9	100.0	..	..
Merch. Terms of Trade	86.5	82.6	110.8	100.0	..	..

H. Balance of Payments	*US$ millions (at current prices)* 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,359	1,172	1,324	1,521	1,603	1,958
Merchandise (FOB)	963	569	589	708	833	1,073
Non-Factor Services	396	603	735	812	769	886
Imports of Goods & NFS	1,386	1,377	1,204	1,472	1,709	1,914
Merchandise (FOB)	1,038	1,004	837	1,065	1,228	1,519
Non-Factor Services	348	373	366	407	481	395
Resource Balance	-27	-205	121	49	-107	44
Net Factor Income	-230	-318	-307	-356	-317	-567
(interest per DRS)	121	213	218	217	215	255
Net Current Transfers	82	153	112	117	436	131
(workers' remittances)	51	92	54	59	73	68
Curr. A/C Bal. before Off. Transf.	-175	-370	-75	-190	12	-392
Net Official Transfers	9	68	37	54	70	86
Curr. A/C Bal. after Off. Transf.	-166	-302	-38	-136	82	-305
Long-Term Capital Inflow	231	133	-183	256	12	274
Direct Investment	28	-9	-5	53	-12	68
Net LT Loans (DRS data)	249	219	-4	99	-4	108
Other LT Inflow (Net)	-46	-77	-175	103	28	99
Total Other Items (net)	-2	209	336	45	35	..
Net Short Term Capital	26	192	256	-37	136	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-28	17	80	83	-101	-89
Changes in Net Reserves	-63	-40	-115	-165	-130	..
Net Credit from the IMF	-42	64	-15	0	-196	-93
Other Reserves Changes	-20	-105	-100	-165	66	..
As Share of GDP:						
Resource Balance	-1.0	-10.2	5.0	1.7	-3.3	..
Interest Payments	4.5	10.6	9.0	7.6	6.7	..
Current Account Balance	-6.6	-18.4	-3.1	-6.6	0.4	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	105	161	98	174	147	108
Reserves incl. Gold (mil. US$)	105	161	98	174	147	108
Official X-Rate (LCUs/US$)	1.78	5.56	5.48	5.49	5.49	5.74
Index Real Eff. X-R Base 1980	100.00	63.75	68.52	67.67	68.18	73.10
GDP (millions of current US$)	2,667	2,006	2,430	2,864	3,215	..

I. Budget (specify level)	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Current Receipts	29.4	29.7	28.0	31.2	30.2	..	-9.5	34.4	..	..	..
Current Expenditures	31.4	28.2	25.8	26.4	27.7	..	0.6	22.7	..	..	..
Current Budget Balance	-2.0	1.5	2.2	4.8	..	..	..	..	..	..	..
Capital Receipts	..	0.3	1.0	1.0	0.8	..	..	..	..	..	..
Capital Expenditures	12.2	5.0	6.3	7.5	9.3	..	-28.7	42.4	..	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-14.2	-4.0	-3.1	-1.7	..	..	-4.2	35.9	..	..	..
Official Capital Grants	4.4	10.6	4.5	3.9	2.4	..	22.7	4.1	..	..	..
External Borrowing (net)	..	..	..	..	3.7	..	..	..	..	..	..
Domestic Non-Bank Financing	9.8	-6.6	-1.4	-2.2	3.0	..	..	..	..	..	..
Domestic Bank Financing	..	..	..	..	-3.1	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	234	223	-1	105	3	115	1,421	2,936	3,105	3,569	3,512	3,681
Official Creditors	268	178	34	48	23	111	911	2,391	2,582	2,977	2,947	3,145
Multilateral	83	99	31	76	17	9	285	748	904	1,161	1,094	1,135
of which IBRD	50	57	-7	23	2	-2	176	468	573	735	671	650
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	185	79	3	-28	7	102	626	1,643	1,678	1,816	1,854	2,011
Private Creditors	-34	45	-35	57	-20	4	510	545	524	592	565	535
Suppliers	-9	46	-20	67	-11	26	33	116	107	183	169	174
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	15	-4	-2	-6	-7	-7	75	66	64	58	43	43
Total LT	249	219	-4	99	-4	108	1,496	3,002	3,169	3,627	3,554	3,724
IMF Credit	-19	-11	-90	-100	-161	-86	309	693	678	679	483	383
Net Short-Term Capital	26	192	256	-37	136	..	98	184	177	232	267	269
Total incl. IMF & Net ST	256	400	163	-38	-28	..	1,904	3,879	4,025	4,537	4,304	4,376

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	11.79	15.59	18.06	20.26	18.88	17.45
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	11.79	15.59	18.06	20.26	18.88	17.45
Share of LT Debt Service						
1. IBRD as % of Total	8.22	12.57	17.52	23.87	27.00	21.07
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	8.22	12.57	17.52	23.87	27.00	21.07
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	101.63	220.99	216.33	214.33	197.03	183.43
2. IMF Credit/Exports	21.01	51.03	46.29	40.10	26.76	18.89
3. Short-Term Debt/Exports	6.66	13.53	12.11	13.69	14.82	13.25
4. LT+IMF+ST DOD/Exports	129.30	285.55	274.74	268.11	238.62	215.57
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	56.11	149.65	130.43	126.62	110.56	..
2. IMF Credit/GDP	11.60	34.55	27.91	23.69	15.02	..
3. Short-Term Debt/GDP	3.68	9.16	7.30	8.09	8.31	..
4. LT+IMF+ST DOD/GDP	71.38	193.37	165.65	158.39	133.89	..
Debt Service /Exports						
1. Public & Guaranteed LT	13.98	28.97	29.46	23.36	22.81	24.87
2. Private Non-guaranteed LT	1.14	1.36	0.94	0.86	0.60	0.62
3. Total Long-Term Debt Service	15.12	30.33	30.40	24.22	23.41	25.49
4. IMF Repurchases+Serv. Chgs.	2.85	8.63	11.86	17.01	14.46	10.09
5. Interest only on ST Debt	1.02	1.59	0.96	0.83	0.94	0.54
6. Total (LT+IMF+ST Int.)	18.99	44.61	44.72	42.05	38.81	36.12

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Jordan

Economic trends in Jordan are an outcome of the country's proximity to an oil-rich region and its unique structural features. Jordan has a very large services sector, accounting for nearly 60 percent of GDP. By contrast, it has an extremely narrow productive base. Apart from its educated and hard-working people, its only natural resources are phosphate, potash and limestone. Less than 5 percent of its agricultural land is arable, virtually all of its oil has to be imported, and water is an increasingly scarce resource, with competing demands from irrigation, urbanization and industrialization.

Conscious of the country's unique geographical situation and narrow productive base, the government pursued liberal, outward-looking policies in trade, labor migration and foreign exchange transfers during the 1970s. Incentive policies were increasingly geared to promoting private enterprise. These policies enabled Jordan to respond to emerging opportunities in neighboring countries during the late seventies. Stimulated by large remittances from Jordanians working abroad, the introduction of improved agricultural technology, the rise of mining exports, the rising demand for Jordanian manufactured products in neighboring countries, and increased grant aid, the economy operated at full employment and grew by about 10 percent a year from 1978 to 1982. Jordan's productive base expanded and became increasingly diversified, and the standard of living improved. While current accounts in both the balance of payments (BOP) and the budget showed substantial deficits, these were largely covered by foreign grants. Foreign borrowing was not excessive and inflation remained low.

Recent Economic Developments

The rapid decline in the price of oil and the subsequent slowdown in regional economies, which began in 1982, adversely affected the Jordanian economy in three ways. First, there was a reduction in the demand for Jordanian goods and services in neighboring countries, resulting in a decline in the export of agricultural and manufactured goods which are sold almost exclusively in regional markets. Second, there was a slowdown in out-migration of Jordanians, which caused a stagnation in remittances and created unemployment within Jordan. Third, between 1982 and 1989, there was a 30 percent reduction in grant aid. Grant aid has traditionally financed about 30 percent of Jordan's imports and amounted to about 80 percent of domestic tax and non-tax revenue. This decline put a severe strain on the government's budgetary operations, as well as on its balance of payments.

The regional recession not only affected the external demand for Jordanian goods but domestic demand as well. Consequently, there has been a drastic slowdown in growth, which has become more pronounced since 1984: during 1984-89, real output growth slowed to about 1.7 percent a year, and total investment fell by about 7 percent a year. Given the continuing high population growth of about 3.6 percent a year, Jordan experienced a sharp fall in per capita income and a decline in its standard of living.

Unemployment was another product of the recession. In 1988, the last year for which data are available, nearly 40 percent of the Jordanian work force was employed in the Gulf Cooperation Council (GCC) states. Out-migration to the GCC, which had grown by 2-3 percent a year during 1975-82, has since fallen to zero. Thus, after experiencing almost full employment during 1975-82, nearly 10 percent of Jordanian workers were unemployed by 1986. The unemployment situation is certain to have worsened since then, given demographic trends, the increasing participation of women in the labor force, and the continued presence of low-wage guest workers who constitute about 20 percent of Jordan's labor force.

Finally the regional recession put a severe strain on budgetary operations, as well as on the BOP. Jordan's overall budget deficit (excluding grants) increased steadily between 1984 and 1988 to almost 24 percent of GDP as a result of slight increases in capital and current expenditures and a decline in budgetary grants. However this has since been reduced to about

18 percent of GDP in 1989 as a result of the adjustment program.

Historically, Jordan's BOP has shown a large current account deficit, as a result of the very high dependence on imports and an extremely narrow base for exports. In 1983-89, the current account deficit averaged about 16 percent of GDP. However, about 75 percent of this deficit had been financed by grants, thereby necessitating external borrowing amounting to about 4 percent of GDP.

During the early 1980s, Jordan's BOP deteriorated as a result of the increase in the price of oil and the decline in grants. The deficit (excluding grants) increased from 28 percent of GDP in 1980 to almost 36 percent of GDP by 1982, resulting in a substantial increase in foreign borrowing and an accumulation of foreign debt, the payments on which began to fall due beginning in 1988. Since 1982, and especially after 1984, however, real imports have grown by less than half the rate of real exports. In addition, import prices have fallen by as much as 6 percent a year, or on average two percentage points faster than export prices.

As a result of these developments, the current account deficit excluding grants has fallen from 36 percent of GDP in 1982 to about 20 percent by 1985, and to about 15 percent of GDP in the past three years, 1987-89. Despite this decline in the current account deficit, Jordan's overall BOP situation remained critical for four reasons. First, the decline in the current account deficit was more than compensated for by the decline in foreign grants from about 9 percent of GDP in 1982 to 4.5 percent of GDP in 1988. Grants increased sharply in 1989 to almost 14 percent of GDP in response to the adjustment program. Second, there was an increase in the debt service payments due on civil and military debt. A large part of the latter had not been fully recorded. Third, the trade credits owed to Jordan by some of its neighbors remained unpaid and amounted to nearly US$450 million by the end of 1988. Finally, there was also political uncertainty regarding the status of the Palestinians following King Hussein's announcement delinking Jordan from the West Bank, which resulted in capital flight not captured in official statistics. All of the above created speculative pressures on the Dinar and reduced the reserves at the central bank of Jordan to less than two weeks of imports by early 1988.

Economic Policies and Programs

The government's economic policies and programs are outlined in the 1986-90 Five-Year Plan unveiled in September 1986. This plan aims at addressing the two challenges facing the government when weakness in oil markets results in unfavorable outlook in neighboring countries. The first is to accelerate growth while sustaining a viable budgetary and balance of payments position. The second is to mitigate the effects of a rapidly increasing labor force in the face of a declining rate in employment creation. To deal with these issues, the 1986-90 plan endorses the continuation of open and liberal trade conditions, which has been a hallmark of Jordan's macroeconomic framework. In addition, the plan calls for a conservative monetary and fiscal policy designed to encourage domestic savings and encourage efficiency, and a flexible interest rate policy.

The emerging economic situation during 1988, however, warranted an acceleration of the process of liberalization described in the plan. The measures implemented since early 1988 include: a freeze on new borrowing during that year; a floating of the dinar (with a depreciation of some 23 percent in real terms vis-à-vis the U.S. dollar); deregulation of interest rates; liberalization of the financial markets; measures to deregulate industry, such as abolition of investment licensing; and austerity budgets for 1989 and 1990. As a result, the government has made considerable progress toward the goal of financial stability. However, growth, at -2.4 percent, has fallen short of the target for 1989 set at the beginning of the year. Jordan's economic prospects, thus, require sustaining the present momentum of reform and raising adequate levels of financing in their support.

Medium-Term Prospects

Over the next decade, Jordan is likely to face considerably harsher conditions than in the late 1970s and early 1980s. The government is expected to sustain the present pace of implementing a comprehensive reform program aimed at restructuring the economy. This program includes a flexible exchange rate policy, and measures to reduce the budget deficit, control inflation and thereby create a stable and competitive macroeconomic setting. In addition, it also includes sectoral policies and institutional reforms to improve the working of industry, agriculture and trade, and thereby accelerate growth through expansion of exports and efficient import substitution. A large portion of this program has already been implemented by the government. Based on these parameters, the real GDP growth rate is expected to accelerate by 1992, while domestic inflation would be maintained at roughly the same level as international inflation. Manufacturing is expected to be the lead sector.

External Assistance

In spite of the steady decline expected in the current account deficit, Jordan's financing requirements will be substantial and will have to be met, as much as possible, on concessional terms. Mobilizing the requisite external financing will not be easy and will require a rescheduling of Jordan's external debt as well as additional recourse to bilateral and multilateral sources of finance. Jordan's civilian medium- and long-term debt outstanding and disbursed rose from 45 percent of GDP in 1980 to almost 95 percent of GDP by 1988. In addition to the civilian debt, Jordan has also contracted substantial military debt mainly during the period after 1984. As a result, by 1989, Jordan's debt/GDP ratio increased to about 128 percent, and the debt service ratio increased to 39 percent. By 1989 Jordan was a highly indebted country which was not in a position to fully service its debt.

JORDAN

Mid-1988 Population (mils.)	3
1988 Per Capita GNP in US$:	1,500

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates (% per annum) (from constant 1985 price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989p*	*1973-80*	*1983-88*	*1987*	*1988*	*1989p*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	12.0	2.4	4.6	-1.8	-2.4
Net Indirect Taxes	..	13.5	9.3	12.2	12.7	11.1	..	0.3	3.0	1.8	-15.7
Agriculture	..	8.1	7.1	6.0	5.6	5.2	12.0	8.1	28.9	12.8	-11.4
Industry	..	18.0	28.6	24.6	25.1	24.9	17.9	0.9	1.6	-5.9	0.0
(of which Manufacturing)	..	7.9	12.9	13.2	12.8	11.9	17.9	1.1	7.0	-7.3	1.5
Services	..	60.5	55.1	57.2	56.6	58.8	11.1	3.0	4.2	-2.5	0.6
Resource Balance	..	-38.5	-50.1	-24.2	-22.9	-18.5	..	..	..	..	..
Exports of GNFS	..	24.0	47.7	36.3	41.7	52.8	25.0	4.9	24.4	8.5	11.5
Imports of GNFS	..	62.5	97.8	60.5	64.6	71.3	22.3	2.2	4.4	6.2	1.3
Total Expenditures	..	138.5	150.1	124.2	122.9	118.5	14.6	1.5	-0.4	-0.5	-4.8
Total Consumption	..	120.5	109.0	101.2	103.9	100.3	12.5	3.1	-0.7	4.8	-3.1
Private Consumption	..	83.9	84.3	73.9	77.6	78.8	13.7	3.5	-2.8	5.9	-1.7
General Government	..	36.6	24.8	27.3	26.3	21.5	9.1	1.9	6.4	1.7	-7.4
Gross Domestic Investment	..	18.0	41.1	22.8	19.0	18.2	23.9	-4.7	0.7	-20.9	-13.8
Fixed Investment	..	21.6	40.4	19.9	19.0	18.2	22.2	-3.8	-5.2	-11.2	-13.8
Changes in Stocks	..	-3.7	0.6	3.0	0.0	0.0	..	..	105.2	-100.0	..
Gross Domestic Saving	..	-20.5	-9.0	-1.2	-3.9	-0.3	..	..	-40.9	94.5	-7.7
Net Factor Income	..	2.3	-0.7	-5.1	-6.3	-9.2	..	..	14.7	23.0	42.1
Net Current Transfers	..	8.3	62.1	23.4	24.3	27.0	..	-8.8	-18.9	1.8	8.6
Gross National Saving	..	-9.9	52.4	17.2	14.0	17.5	..	-37.4	-8.2	-70.6	16.8

In millions of Jordanian Dinars (at constant 1985 prices)	*1965*	*1975*	*1980*	*1987*	*1988*	*1989p*					
Gross Domestic Product	..	647	1,226	2,035	1,997	1,948	12.0	2.4	4.6	-1.8	-2.4
Capacity to Import	..	85	198	934	1,066	1,239	25.1	9.0	15.7	14.2	16.2
Terms of Trade Adjustment	..	19	-6	-180	-154	112	..	..	2.0	-14.8	..
Gross Domestic Income	..	666	1,289	1,854	1,844	2,060	12.1	0.3	4.9	-0.6	11.7
Gross National Product	..	..	1,218	1,931	1,870	1,768	11.4	1.5	4.1	-3.2	-5.5
Gross National Income	..	..	1,212	1,751	1,717	1,880	11.5	-0.7	4.3	-2.0	9.5

			(1987 = 100)				Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988p*	*1989p*	*1973-80*	*1983-88*	*1987*	*1988*	*1989p*
Consumer Prices (IFS 64)	76.9	100.0	100.0	99.8	106.4	133.8	12.3	3.7	-0.2	6.6	25.8
Wholesale Prices	82.8	100.0	99.7	100.6	110.1	147.8	..	2.0	0.9	9.4	34.2
Implicit GDP Deflator	80.3	100.0	104.1	101.9	109.6	131.2	11.2	2.3	-2.1	7.6	19.7
Implicit Expenditures Defl.	79.3	100.0	92.8	93.7	98.4	116.4	10.0	1.3	1.0	5.0	18.3

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1983-88*	*1988*	*1989*
Population	3.0	2.3	3.8	3.6	3.6
Labor Force	4.0	5.2	5.4	..	..
Gross Natl. Income p.c.	..	9.0	-4.3	-5.4	5.7
Private Consumption p.c.	..	11.1	-0.2	2.2	-5.1
Import Elasticity:					
Imports (G+NFS) / GDP(mp)	..	1.9	0.9	-3.4	-0.5
Marginal Savings Rates :					
Gross National Saving	..	..	-0.9	-0.6	0.5
Gross Domestic Saving	..	..	-0.3	-0.5	0.2
ICOR (period averages):	8.9	3.0	5.6	4.1	1.1

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1986*	*1987*	*1988*
Agriculture	36.6	22.5	10.2	7.6	7.4	7.6
Industry	25.9	25.8	25.6	26.7	26.7	26.7
Services	37.5	51.7	64.2	59.2	59.2	59.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

1/ The Goverment recently revised the national accounts back to 1983. The two major changes are the inclusion in GDP of the imputed value of owner-occupied housing, and the shift of the refinery value-added from indirect taxes to manufacturing.

E. Merchandise Exports	Volume Index (1980=100) 1980	1985	1986	1987	1988	1989e	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989p
Raw Materials (incl phosph.)	100.0	181.2	221.9	236.4	305.8	327.0	165	250	280	270	374	379
Foodstuffs	100.0	139.4	134.4	119.8	108.5	127.0	98	115	124	109	99	57
Chemicals (incl potash)	100.0	390.5	484.2	613.9	779.3	882.0	37	129	156	207	253	278
Manufactures	100.0	144.9	75.6	150.8	126.4	155.0	63	101	56	110	89	172
Other	100.0	105.1	67.6	98.0	128.4	149.0	41	53	30	39	60	52
Total Domestic Exports FOB	100.0	175.6	180.2	214.1	251.2	271.0	403	648	645	734	874	938
F. Merchandise Imports												
Food	100.0	136.7	142.1	150.3	169.9	160.0	378	387	384	390	395	361
Fuel and energy	100.0	139.3	150.1	173.9	172.8	121.0	410	491	318	440	405	526
Other Consumer Goods	100.0	154.8	140.0	131.4	131.0	147.0	428	550	557	595	567	359
Other Intermed. Goods	100.0	175.5	233.7	234.2	317.6	282.0	359	636	612	624	636	549
Capital goods	100.0	91.2	91.7	94.0	78.5	61.0	828	663	560	654	748	589
Total Imports CIF	100.0	129.8	136.5	141.5	146.3	146.0	2,402	2,727	2,430	2,703	2,750	2,384

G. Terms of Trade (1980=100)	1980	1985	1986	1987	1988	1989e
Merch. Exports Price Index	100.0	91.6	88.8	85.1	85.6	85.1
Merch. Imports Price Index	100.0	87.5	74.1	79.6	73.1	74.1
Merch. Terms of Trade	100.0	104.7	119.8	106.9	117.1	114.8

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988p	1989p
Exports of Goods & NFS	1,572	1,977	1,802	2,224	2,431	2,359
Merchandise (FOB)	575	790	732	932	1,016	1,118
Non-Factor Services	997	1,187	1,070	1,292	1,415	1,241
Imports of Goods & NFS	3,226	3,731	3,326	3,696	3,764	3,217
Merchandise (FOB)	2,398	2,724	2,423	2,694	2,716	2,383
Non-Factor Services	828	1,007	903	1,002	1,048	834
Resource Balance	-1,654	-1,754	-1,524	-1,472	-1,333	-858
Net Factor Income	-24	-220	-267	-311	-371	-415
(interest per DRS)	79	171	185	216	300	250
Net Current Transfers	741	982	1,114	834	865	592
(workers' remittances)	715	921	1,066	844	805	562
Curr. A/C Bal. before Off. Transf.	-937	-992	-677	-949	-839	-681
Total Official Transfers (net)	1,311	739	633	599	550	621
Curr. A/C Bal. after Off. Transf.	374	-253	-44	-350	-289	-60
Long-Term Capital Inflow	104	338	147	217	64	445
Direct Investment	27	14	23	32	25	-19
Net LT Loans (DRS data)	267	316	334	109	167	-154
Other LT Inflow (Net)	-190	8	-209	77	-128	618
Total Other Items (net)	-122	67	31	79	-263	-130
Net Short Term Capital	4	10	-2	6	25	-209
Capital Flows N.E.I.	-1	0	0	0	28	72
Errors and Omissions	-125	57	33	73	-316	7
Changes in Net Reserves	-356	-152	-134	53	488	-255
Net Credit from the IMF	5	65	0	0	0	51
Other Reserves Changes	-361	-217	-134	53	488	-306
As Share of GDP:						
Resource Balance	-50.1	-36.8	-26.3	-24.1	-22.9	-19.1
Interest Payments	2.4	3.6	3.2	3.5	5.2	5.6
Curnt Acct Bal after trnsfr	11.3	-5.3	-0.8	-5.7	-5.0	-1.3
Memorandum Items:						
Reserves excl. Gold (mil. US$)	1,143	423	437	425	110	464
Reserves incl. Gold (mil. US$)	1,745	759	828	872	434	747
Official X-Rate (JD/US$)	0.30	0.39	0.35	0.34	0.38	0.57
Index Real Eff. X-R Base 1980	100.00	109.37	100.76	90.40	79.00	..
GDP (millions of current US$)	3,304	4,772	5,785	6,116	5,824	4,485

1/ Includes debt rescheduling of $611 million in 1989.

2/ Interest arrears.

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989p	Growth Rates 1980-83	1986	1987	1988	1989p
Current Receipts	23.0	23.4	25.4	25.6	24.8	22.7	11.1	0.8	-1.0	5.2	19.6
Current Expenditures	34.1	30.4	29.7	30.3	33.2	32.7	10.5	5.4	4.4	15.8	14.8
Current Budget Balance	-11.2	-6.9	-4.3	-4.7	-8.4	-10.0	13.1	-19.1	-31.4	-85.4	349.5
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	17.2	15.7	10.0	17.9	15.9	7.6	-2.3	-31.7	84.0	-6.5	-44.2
Overall Deficit	-28.4	-22.7	-14.3	-22.6	-24.3	-17.6	-18.9	-41.9	213.5	12.9	-56.7
Official Capital Grants	21.3	14.0	9.6	8.2	8.9	11.9	..	-25.9	-12.5	14.5	56.2
External Borrowing (net)	5.5	6.6	4.3	0.4	3.4	3.5	-5.3	-31.0	-91.5	913.7	22.3
Domestic Banking System	2.2	1.2	1.2	13.7	12.0	2.3	..	8.3	1051.8	-7.9	-91.9
Domestic Non-bank Sources	-0.5	0.9	-0.8	0.3	0.0	-0.2 1/	..	..	..	-92.1	-880.0

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988 2/	1989p 2/	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988 2/	1989p 2/
Public & Publicly Guar. LT	268	316	334	109	167	339	1,493	3,059	3,551	3,944	5,435	5,761
Official Creditors	274	134	117	50	-6	-8	1,217	2,118	2,366	2,657	2,904	2,915
Multilateral	52	77	105	71	38	-14	164	419	576	744	1,190	1,219
of which IBRD	22	55	68	70	24	10	26	168	282	427	414	412
of which IDA	9	-1	-1	-1	-1	-1	76	82	81	80	79	78
Bilateral	222	58	12	-21	-44	6	1,053	1,699	1,789	1,914	1,714	1,696
Private Creditors	-6	182	217	59	173	246	276	941	1,185	1,287	2,531	2,846
Suppliers	22	-1	-27	-41	-20	4	37	178	153	115	121	125
Financial Markets	-28	182	244	100	193	343	239	764	1,033	1,173	2,410	2,721
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	268	316	334	109	167	339	1,493	3,059	3,551	3,944	5,435	5,761
IMF Credit	0	58	0	0	-29	39	0	63	70	81	48	94
Net Short-Term Capital	4	10	-2	6	25	-209	486	919	987	1,334	316	*106 3/*
Total incl. IMF & Net ST	272	384	332	115	163	169	1,978	4,041	4,608	5,360	5,798	5,961

Bank and IDA Ratios	1980	1985	1986	1987	1988 2/	1989p 2/
Share of Total Long-Term DOD						
1. IBRD as % of Total	1.74	5.48	7.93	10.83	7.62	7.15
2. IDA as % of Total	5.06	2.69	2.29	2.04	1.46	1.36
3. IBRD+IDA as % of Total	6.80	8.16	10.22	12.87	9.08	8.51
Share of LT Debt Service						
1. IBRD as % of Total	0.45	4.77	7.28	9.02	8.78	15.51
2. IDA as % of Total	0.39	0.34	0.30	0.25	0.18	0.35
3. IBRD+IDA as % of Total	0.84	5.11	7.58	9.27	8.96	15.86
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	59.80	98.58	114.95	122.47	161.42	190.57
2. IMF Credit/Exports	0.00	2.03	2.27	2.53	1.41	3.10
3. Short-Term Debt/Exports	19.46	29.62	31.96	41.43	9.38	3.51
4. LT+IMF+ST DOD/Exports	79.26	130.23	149.19	166.43	172.21	197.19
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	45.18	64.10	61.38	64.50	93.32	128.44 4/
2. IMF Credit/GDP	0.00	1.32	1.21	1.33	0.82	2.09
3. Short-Term Debt/GDP	14.70	19.26	17.07	21.82	5.42	2.37
4. LT+IMF+ST DOD/GDP	59.88	84.68	79.66	87.65	99.56	132.90
Debt Service /Exports						
1. Public & Guaranteed LT	7.2	14.2	16.2	19.7	26.3	16.0 5/
2. Private Non-guaranteed LT	0.0	0.0	0.0	0.0	0.0	0.0
3. Total Long-Term Debt Service	7.2	14.2	16.2	19.7	26.3	16.0
4. Rescheduled LT Debt Service	..	..	..	..	..	20.2
5. IMF Repurchases+Serv. Chgs.	0.0	0.1	0.1	0.1	1.0	1.7
6. Interest only on ST Debt	2.2	2.4	2.1	2.6	0.7	1.2
7. Total Sched.(LT+IMF+ST Int.)	9.4	16.7	18.4	22.4	28.0	39.1

Notes:

.. = not available

1/ In 1989, arrears accumulated of JD 38.1 million.

2/ Military and oil credits are included beginning in 1988 in debt outstanding, and in 1989 in debt flows.

3/ Short-term debt outstanding was estimated by IECDI to be about $1 billion for several years, but this figure is disputed by the Government.

4/ The DOD to GDP ratio in 1988-89 is lower than previously reported due to a) the exclusion of undisbursed debt, and b) the upward revision of GDP.

5/ The drop in the 1989 debt service ratio and the variation in IBRD share of DOD and DS reflects the rescheduling of $611 million of interest and principal that year.

Kenya

Most of Kenya's 583,000 square kilometers are arid, some 75 percent classified as desert, semi-desert, or arid bush. Kenya's population growth rate is one of the highest in Sub-Saharan Africa. GNP per capita stood at $370 in 1988. The economy is heavily dependent on agriculture. The sector employs about 80 percent of the labor force, contributes 26 percent of GDP, and its two main export crops—tea and coffee—account for 45 percent of merchandise exports. Kenya has a relatively strong and diversified industrial base which contributes about 17 percent of GDP and employs close to 7 percent of the labor force. Manufactured exports are low, however, and have remained below 20 percent of total exports since the collapse of the East African Community. Tourism is an important source of employment and in 1988 was Kenya's largest foreign exchange earner. Kenya is not an oil producing country, but it does have an oil refinery in Mombasa that supplies domestic and export markets.

Trends in the 1960s and 1970s

Kenya's first decade after Independence, beginning in 1963, was one of remarkable growth and structural change, with real GDP growing by almost 7 percent annually. The expansion of agriculture was stimulated by the conversion of high-potential land from extensive use to smallholder cultivation, the introduction of high-value production activities and the adoption of high-yielding maize varieties. Manufacturing growth was largely due to the expansion of 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 percent during 1973-80. This slowdown reflected not only the impact of the oil shock but also the emergence of structural constraints. Agricultural growth slowed due to the tapering off of the factors which boosted production during the first decade and also to inappropriate government policies. The latter included trade and exchange rate policies that turned the internal terms of trade against agriculture, and government involvement in marketing that discouraged production while increasing fiscal pressures. Industrial growth slowed under an incentive structure that favored the domestic market over exports, leading 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 and the growing inefficiency of public investment in the sector. Due to increases in fertility and falling mortality, reflecting improvements in health and social conditions, Kenya's population growth accelerated to one of the highest in the world.

Developments during the 1980s

Annual GDP growth (at market prices) slowed to 2.6 percent during 1980-85, a period of stabilization which also included a year of political uncertainty (the 1982 attempted coup) and one of severe drought (1984). The need for stabilization arose from the erosion of fiscal discipline following the coffee boom of the late 1970s and the subsequent deterioration in the external terms of trade due to the second oil shock. In 1982, a major devaluation restored the real effective exchange rate to its 1976 level and periodic adjustments have since resulted in a substantial real effective depreciation. Real interest rates became positive and real wages fell in the public and private sectors. In agriculture, administered producer prices for maize and wheat were raised substantially. The overall budget deficit (excluding grants) was reduced from 10 percent of GDP in 1981 to 4.5 percent in 1984, mainly through cuts in development expenditures. These measures helped to reduce inflation from more than 20 percent in 1981 to 13 percent in 1985. Despite deteriorating terms of trade, the current account deficit (excluding grants) declined from 14 percent of GDP in 1980 to 3.7 percent in 1985, mainly through a reduction in imports and lower economic growth.

In 1986, Kenya's GDP growth of 7.0 percent was the highest rate achieved in the eighties. The balance of payments position strengthened as a result of higher export volumes, and improvement in the terms of trade from higher coffee and lower oil prices. The current account deficit (excluding grants) as a share of GDP fell to 2.6 percent and, assisted by increased food production and lower oil prices, inflation fell to 3.9 percent. Kenya's public finances which weakened in 1985 showed little improvement in 1986. The 1986 budget deficit (excluding grants) of 6.4 percent of GDP, was only slightly lower than the 6.8 percent in 1985. The rapid growth in expenditure and net lending can be partly attributed to the impact of weather conditions. While inadequate rainfall from late 1983 through early 1985 required large drought-related expenditures in 1985, good weather led to substantial short-term financing for agricultural marketing parastatals in 1986. Expenditure pressures continued during 1987, however, including growth in civil service and teacher employment, and Kenya's hosting of the All-Africa Games. Total government expenditures reached a record 30.2 percent of GDP in 1987 and the deficit (excluding grants) jumped to 7.6 percent of GDP.

Real GDP (at market prices) increased by 5.8 percent in 1987 but Kenya's external position weakened as a result of a marked fall in its terms of trade, a small reduction in export volumes, and bulky non-recurrent imports. The current account deficit (excluding grants) increased to 8.0 percent of GDP in 1987 and inflation rose to 5.2 percent. The budget deficit (excluding grants) in 1988 was reduced to 6.4 percent of GDP. The economic recovery was sustained in 1988 with real GDP (at market prices) growth of 6.0 percent. The current account deficit remained high at 8.3 percent of GDP (excluding grants) as a result of continuing pressure on Kenya's balance of payments from weak coffee and tea prices, and sluggish export growth. Liquidity pressures remained high and inflation continued to rise, reaching 8.3 percent in 1988. Preliminary data for 1989 suggest somewhat slower economic growth at 5.0 percent and continuing balance of payments and inflationary pressures.

Development Strategy: The Sessional Paper

In early 1986, the government published its Sessional Paper on Economic Management for Renewed Growth, which provides a framework for Kenyan development to the year 2000. The paper emphasizes that in order to provide productive employment for a labor force which is expected to increase by almost 90 percent between 1985 and 2000, economic growth needs to accelerate. Annual GDP growth is, therefore, targeted at 5.6 percent. The paper states that the private sector will play the dominant role in revitalizing the economy, and that the government will establish market incentives to channel private sector activity in desired directions, while relying less on direct controls. Emphasis is placed on increased productivity in agriculture and rural non-farm activity, a dynamic informal sector, and the restructuring of industry to improve its export competitiveness. More uniform tariffs and freer import licensing are expected to promote greater efficiency and encourage exports, while the exchange rate will be managed so as to maintain Kenya's international competitiveness. The paper devotes considerable attention to the rural-urban balance, with an emphasis on town and secondary city development in order to avoid concentration of population growth in Nairobi and Mombasa. Local authorities are to be strengthened, and District Development Committees are to play an increasing role in planning rural development.

The government's strategy outlined in the sessional paper constitutes an appropriate framework for Kenya's economic development during the remainder of this decade. In order to meet the government's objective of accelerated growth, however, this broad strategy will need to be translated into concrete policy actions that can address key development constraints and deepen the process of structural adjustment already underway.

Key Development Issues

Agriculture. Agricultural output must increase at an annual rate of close to 4 percent just to keep pace with population growth. Despite serious land constraints, there is considerable scope for increasing yields (which are currently substantially below best practices) and diversifying output. Within existing cropping patterns, farmers can adopt more productive practices, especially the use of improved varieties, fertilizer and disease and pest control. Pricing policies, expanded extension services, and greater private sector involvement in the provision of services/inputs, including credit and marketing will be the main instruments for raising yields. Research is also needed to develop high-yielding varieties and improve husbandry methods. Horticulture offers considerable scope for expanding employment and exports. In the area of public expenditures, resources can be reallocated away from support of parastatal marketing activities, toward the provision of essential services.

Under its Agriculture Sector Adjustment Program, the government is maintaining incentives, boosting input supplies and credit, improving the delivery of essential services, rationalizing public expenditures, and encouraging a greater role for the private sector. On grain marketing, the government is modifying the role of the grain marketing agency, by making it more of a regulatory body focussing on food security. Maize trading is being opened to cooperatives and licensed traders. In addition, there is a need to proceed with divestiture/rationalization plans for other parastatals in the sector, and sustain progress under the budget rationalization program.

Industry. An industrialization strategy based on protected import substitution cannot sustain high output and employment growth. The prospects for efficient import substitution are nearly exhausted and manufactured exports have continued to decline as a proportion of output. Under its Industrial Sector Adjustment Program, the government has taken steps to reduce the effective company tax rate, improve the regulatory and administrative framework for investment, and reduce price controls to encourage investment. Exports will be promoted by a flexible exchange rate, an efficient mechanism for supplying tax-free inputs, and the introduction of manufacturing-in-bond for exporters. A gradual process of trade liberalization has started with the aim of making protection transparent, lower, and more uniform. Financial sector reforms will also complement adjustment in the sector.

Population. In response to the alarming increase in population growth, with the support of donors, the government in 1982 broadened its family planning approach into a comprehensive population program. All indications are that these efforts, which for a long time did not seem to have much impact, are finally bearing fruit. A recent survey shows a reduction in the total fertility rate from 7.7 in 1984 to 6.7 in 1989, and a 50 percent increase in the contraceptive prevalence rate over the same period. These positive trends reflect a growing national consensus in favor of population planning; increasing emphasis in the design of family planning activities on demand promotion and on a multi-product, multi-sector approach; and the development of a sound institutional structure.

Employment and Poverty. As a result of high population growth, Kenya faces a serious employment problem. To accommodate the growing labor force, annual employment growth must accelerate from 3.4 percent during the seventies to at least 4.2 percent. Most of such growth in employment is likely to come from the agriculture, informal, and rural non-farm sectors. In order to prevent an increase in unemployment and poverty, the government is focusing on accelerating agricultural growth, improving incentives and removing constraints on informal urban activities, and strengthening infrastructure in rural areas and small towns to support rural non-farm activities.

Poverty in Kenya is mainly a rural phenomenon. As in many African countries, women's agricultural productivity often determines how much food is available to the family. In many parts of rural Kenya, men have migrated to the cities leaving their wives with sole responsibility for sustaining their families. These households are generally poorer than male-headed ones, with fewer income-earning adults, less access to land, credit, and extension services. Efforts are underway to identify ways of assisting women, reduce poverty among female-headed households, and increase agricultural productivity. The primary focus is on reaching women through agricultural extension, expanding secondary school places for girls, and improving community-based water supply schemes (women in rural Kenya often spend 2-3 hours a day fetching water).

Health and Education. The rapid population growth implies that services need to expand rapidly to meet rising demand. At the same time, there is a need to improve access and raise the quality of services. This involves a substantial resource burden on the government from sectors that are already large claimants on national resources. The key issues in these sectors, therefore, are how to utilize resources more efficiently, and how to increase cost-sharing, while being sensitive to equity considerations. Despite the emphasis Kenya has placed on the health sector since Independence, it suffers from many of the problems common to most African countries. Personnel costs account for a disproportionate share of recurrent expenditures, leaving limited resources for operations and maintenance. Cost recovery is inadequate in many areas and a bias toward curative health care reduces the overall effectiveness of the system. The Ministry of Health's weak administrative and managerial capacity results in poor planning, uneven delivery of services in rural areas, and inadequate response capacity to new threats to public health. Notwithstanding the government's stated objective of reducing the share of its recurrent budget devoted to education, assistance to community schools has expanded, the duration of primary education extended, and higher education is expanding rapidly. With salaries accounting for the bulk of education sector expenditures, and negligible cost-recovery efforts in higher education, the quality of education has been adversely affected by inadequate supplies of teaching materials and textbooks. An important related issue is the need to improve the curriculum and opportunities for women's education, particularly at post-primary levels.

Public Expenditures. Domestic resource mobilization in Kenya is generally satisfactory, but public expenditures at over 30 percent of GDP are high relative to most low and middle-income countries. The high level of public expenditure combined with large budgetary deficits have resulted in some crowding out of the private sector. Over the medium term, it will be necessary both to shift resources from the public to the private sector, and to achieve a more efficient allocation of public resources. The government's own analysis of resource use has identified a number of issues. On the recurrent side, the large expansion of public sector employment has resulted in a burgeoning civil service and an unsustainable high wage bill. As a consequence, non-wage operations and maintenance expenditures have been neglected, leaving schools without textbooks, and instructional materials, hospitals without adequate medical supplies, and roads unrepaired. On the capital side, the public investment program is over-extended and does not adequately reflect priorities dictated by rates of return or cost-effectiveness. At the same time, parastatals continue to depend on the budget for current and capital subsidies. Although attempts are being made to address these issues through a rationalization of the project pipeline and forward budgeting, the gains have been offset by recent wage increases to civil servants and large transfers to grain marketing parastatals.

Infrastructure. Infrastructure is relatively more developed in Kenya than in other low-income African countries. The quality of past investments, however, has deteriorated due to inadequate provision for operations and maintenance, and weak management. This is particularly noticeable in the transport sector, where sections of the highway system need complete rehabilitation, the Port of Mombasa and the provision of municipal services. Issues relating to cost recovery, the composition of expenditures, particularly the distribution between wage and non-wage costs, and procedures for allocating budgetary resources are common to most sectors. The delivery of certain services, such as rural water supply, is also weak. Most towns are finding it difficult to provide infrastructure (shelter, water, and energy) for their growing populations.

Growth Prospects. The prospects for achieving the high growth scenario envisaged in the sessional paper will depend on the effective implementation of structural adjustment measures to address the key development issues identified above. If recent progress in structural reforms is maintained and deepened, it should be possible to sustain annual GDP growth of about 5 percent. With less vigorous pursuit of policy reforms, GDP growth would likely slow to about 3 percent, leading to a drop in per capita income.

External Capital Requirements and Debt Servicing. Most of Kenya's debt is from official sources, and indicative of generally prudent external debt management policies, it currently faces a substantial but manageable debt problem. The debt service ratio for public and publicly guaranteed long-term debt, including the IMF, reached 34.1 percent in 1989, and is expected to decline to about 25-27 percent by 1992, provided the government adheres to its policy of limiting recourse to non-concessional external borrowing.

KENYA

Mid-1988 Population (mils.)	23
1988 Per Capita GNP in US$:	370

	A. Shares of Gross Domestic Product *(from current price data)*						B. Growth Rates(% per annum) *(from constant price data)*				
	1965	*1973*	*1980*	*1987*	*1988p*	*1989p*	*1965-73*	*1973-80*	*1980-88*	*1988p*	*1989p*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	8.5	5.1	4.0	6.0	5.0
Net Indirect Taxes	8.1	10.1	15.1	13.9	14.2	..	..	..	..	..	..
Agriculture	32.4	31.9	27.6	26.9	26.3	..	6.2	3.7	3.3	4.6	4.0
Industry	16.7	18.6	18.8	16.7	16.8	..	12.4	5.7	2.8	5.7	5.6
(of which Manufacturing)	10.5	10.8	11.2	10.5	10.4	..	12.4	6.9	4.6	6.0	5.8
Services	42.8	39.4	38.5	42.5	42.8	..	7.6	5.2	5.5	5.3	5.5
Resource Balance	0.7	-1.3	-11.4	-5.1	-5.0	-5.6	..	..	..	..	..
Exports of GNFS	31.4	27.4	28.6	21.3	22.2	23.6	4.3	0.3	2.8	5.2	6.4
Imports of GNFS	30.7	28.7	40.0	26.4	27.2	29.2	5.7	2.5	-0.7	9.0	15.3
Total Expenditures	99.3	101.3	111.4	105.1	105.0	105.6	8.4	5.1	2.9	6.9	7.4
Total Consumption	84.9	75.5	81.4	80.3	79.5	..	5.6	5.6	4.4	8.1	4.3
Private Consumption	70.1	59.0	61.0	61.8	60.5	..	3.9	4.2	5.6	7.7	3.2
General Government	14.8	16.5	20.3	18.5	19.0	..	13.1	9.7	1.1	9.4	3.9
Gross Domestic Investment	14.4	25.8	30.0	24.8	25.6	..	15.9	4.4	-1.1	3.2	21.2
Fixed Investment	12.8	20.4	23.7	19.6	19.5	..	..	..	-1.1	8.7	24.9
Changes in Stocks	1.6	5.4	6.3	5.2	6.0	..	..	..	..	..	..
Gross Domestic Saving	15.1	24.5	18.7	19.7	20.5	..	12.5	1.0	0.7	2.8	21.8
Net Factor Income	-2.6	-5.0	-3.2	-3.8	-4.3	-4.0	..	..	..	..	..
Net Current Transfers	0.0	-0.3	0.4	0.9	1.0	1.1	..	..	..	..	..
Gross National Saving	12.5	19.2	15.8	16.7	17.3	..	12.4	1.7	-0.4	-0.3	27.4

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	36	72	100	131	139	146	8.5	5.1	4.0	6.0	5.0
Capacity to Import	26	35	32	28	31	35	3.9	-0.4	1.0	10.1	14.4
Terms of Trade Adjustment	10	13	7	0	1	4	..	..	..	..	..
Gross Domestic Income	46	85	107	131	140	150	7.5	4.3	3.6	7.0	6.8
Gross National Product	35	68	97	126	133	140	8.3	5.3	3.9	5.4	5.3
Gross National Income	45	81	104	126	134	144	7.3	4.4	3.4	6.5	7.2

	(1987 = 100)						*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989p*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989p*
Consumer Prices (IFS 64)	48.9	91.5	95.1	100.0	108.3	..	2.8	14.3	10.4	8.3	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	52.5	86.1	94.2	100.0	109.8	120.6	2.4	11.6	9.6	9.8	9.9
Implicit Expenditures Defl.	48.8	85.4	92.0	100.0	108.7	117.5	3.0	12.5	10.1	8.7	8.0

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.4	3.8	4.2
Labor Force	..	..	..
Gross Natl. Income p.c.	3.7	0.6	-0.7
Private Consumption p.c.	0.5	0.3	1.3
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.7	0.5	-0.2
Marginal Savings Rates:			
Gross National Saving	0.0	-0.1	0.0
Gross Domestic Saving	0.0	-0.2	0.0
ICOR (period averages):	..	5.8	5.8

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	86.1	83.6	81.0	..
Industry	5.1	6.0	6.8	..
Services	8.8	10.4	12.1	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988p	1989p	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988p	1989p
X.FUEL	237.2	88.5	114.1	100.0	123.1	88.3	439	155	133	124	84	73
X.BEV.COFFEE	80.1	104.6	126.6	100.0	90.8	94.4	291	281	479	237	276	219
X.BEV.TEA	55.6	93.8	86.5	100.0	102.7	112.8	156	233	213	199	209	259
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	113.3	78.6	101.0	100.0	132.7	139.3	181	126	141	133	205	218
Residual	..	..	..	..	..	..	194	148	201	218	244	304
Total Exports FOB	99.1	90.0	103.6	100.0	105.5	108.5	1,261	943	1,167	909	1,017	1,072
F. Merchandise Imports												
Food	108.0	139.8	101.8	100.0	61.1	65.0	199	141	153	125	122	136
Fuel and energy	130.0	91.0	94.0	100.0	98.0	93.6	876	461	300	349	289	333
Other Consumer Goods	181.0	78.1	92.4	100.0	119.0	105.0	468	231	266	310	372	327
Other Intermed. Goods	..	..	..	..	..	..	316	266	311	358	377	340
Capital goods	156.9	75.5	102.0	100.0	131.4	132.8	726	357	620	597	927	969
Total Imports CIF 1/	142.5	81.1	95.3	100.0	112.3	113.1	2,585	1,456	1,649	1,739	2,089	2,208

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	65.7	112.7	120.6	100.0	115.1	132.7
Merch. Imports Price Index	45.7	104.0	98.7	100.0	110.1	133.9
Merch. Terms of Trade	143.8	108.3	122.3	100.0	104.6	99.1

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988p	1989p
Exports of Goods & NFS	2,007	1,569	1,860	1,697	1,872	2,018
Merchandise (FOB)	1,261	943	1,167	909	1,017	1,072
Non-Factor Services	746	625	693	788	854	947
Imports of Goods & NFS	2,846	1,630	1,865	2,123	2,332	2,497
Merchandise (FOB)	2,345	1,270	1,451	1,623	1,802	1,905
Non-Factor Services	502	360	414	501	530	593
Resource Balance	-839	-61	-4	-426	-461	-479
Net Factor Income	-194	-244	-240	-286	-340	-340
(interest per DRS)	173	186	206	240	194	234
Net Current Transfers	27	81	58	72	89	92
(workers' remittances)	0	0	0	0	0	..
Curr. A/C Bal. before Off. Transf.	-1,006	-223	-187	-640	-711	-727
Net Official Transfers	120	113	150	143	257	228
Curr. A/C Bal. after Off. Transf.	-886	-110	-37	-497	-454	-499
Long-Term Capital Inflow	532	-45	109	296	325	432
Direct Investment	78	13	28	37	7	-17
Net LT Loans (DRS data)	403	130	288	207	206	152
Other LT Inflow (Net)	52	-188	-207	51	111	296
Total Other Items (net)	152	99	57	166	76	109
Net Short Term Capital	143	58	13	132	44	9
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	9	42	43	34	32	100
Changes in Net Reserves	202	56	-129	36	54	-42
Net Credit from the IMF	52	106	-55	-50	66	-23
Other Reserves Changes	150	-50	-74	86	-12	-19
As Share of GDP:						
Resource Balance	-11.8	-1.0	-0.1	-5.3	-5.4	-5.6
Interest Payments	2.4	3.1	2.9	3.0	2.2	2.7
Current Account Balance	-14.2	-3.7	-2.6	-8.0	-8.3	-8.5
Memorandum Items:						
Reserves excl. Gold (mil. US$)	492	391	413	256	264	285
Reserves incl. Gold (mil. US$)	539	417	444	294	296	317
Official X-Rate (LCUs/US$)	7.42	16.43	16.23	16.45	17.75	20.57
Index Real Eff. X-R Base 1980	100.00	100.28	86.98	78.64	72.72	..
GDP (millions of current US$)	7,087	6,078	7,202	7,975	8,603	8,565

I. Central Government Budget	Share of GDP (%) 1980 2/	1985	1986	1987	1988p	1989p	Growth Rates 1980-84	1986	1987	1988p	1989p
Current Receipts	30.9	22.1	22.6	22.5	23.1	22.9	..	18.3	15.1	17.1	14.2
Current Expenditures	27.6	22.7	24.0	22.2	21.6	22.7	..	22.4	6.8	11.2	21.1
Current Budget Balance	3.3	-0.6	-1.4	0.3	1.5	0.2	..	176.0	..	401.7	-87.1
Development Expenditure	8.7	7.0	5.7	8.0	6.5	7.0	..	-5.9	60.7	-7.3	25.3
Overall Deficit 3/	-8.6	-6.8	-6.4	-7.6	-6.4	-6.9	..	10.1	36.1	-3.0	23.9
External Grants	1.0	1.7	1.0	1.0	2.2	2.3	..	-29.0	14.6	153.8	17.1
External Borrowing, net	3.8	1.2	-0.9		1.0	2.4	..	..	..	4827.6	179.9
Domestic Financing, net	1.2	3.9	6.3	6.6	3.2	2.2	..	87.1	19.8	-44.4	-20.6

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988p	1989p	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988p	1989p
Public & Publicly Guar. LT	403	47	341	170	75	167	2,180	2,895	3,649	4,461	4,241	4,380
Official Creditors	211	142	159	157	116	183	1,306	2,499	3,015	3,681	3,574	3,745
Multilateral	145	91	78	92	100	83	650	1,350	1,639	2,021	1,984	2,100
of which IBRD	35	44	8	-21	-52	-58	308	751	931	1,128	973	891
of which IDA	71	34	28	71	133	224	220	409	451	553	673	896
Bilateral	66	50	82	65	16	100	656	1,149	1,376	1,660	1,590	1,645
Private Creditors	192	-95	181	13	-41	-16	874	396	634	780	667	635
Suppliers	0	9	30	25	-4	4	191	80	116	170	160	165
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	-1	83	-52	37	131	-14	437	511	459	496	627	632
Total LT	403	130	288	207	206	152	2,617	3,406	4,108	4,957	4,869	5,012
IMF Credit	85	46	-116	-122	75	-29	254	522	460	401	455	415
Net Short-Term Capital	143	58	13	132	44	9	641	475	378	608	564	602
Total incl. IMF & Net ST	630	234	185	217	324	133	3,512	4,403	4,945	5,967	5,888	6,029

Bank and IDA Ratios	1980	1985	1986	1987	1988p	1989p
Share of Total Long-Term DOD						
1. IBRD as % of Total	11.78	22.05	22.67	22.76	19.98	17.77
2. IDA as % of Total	8.41	11.99	10.98	11.16	13.82	17.89
3. IBRD+IDA as % of Total	20.19	34.04	33.65	33.92	33.80	35.66
Share of LT Debt Service						
1. IBRD as % of Total	11.02	16.35	20.80	25.10	34.76	25.17
2. IDA as % of Total	0.45	0.90	1.01	1.16	1.69	1.39
3. IBRD+IDA as % of Total	11.47	17.25	21.81	26.26	36.45	26.56
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	126.94	211.97	216.53	285.84	259.01	246.82
2. IMF Credit/Exports	12.32	32.47	24.24	23.14	24.23	20.46
3. Short-Term Debt/Exports	31.12	29.56	19.91	35.07	30.00	29.65
4. LT+IMF+ST DOD/Exports	170.38	274.00	260.68	344.05	313.24	296.93
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	36.92	56.04	57.03	62.16	56.59	58.51
2. IMF Credit/GDP	3.58	8.59	6.38	5.03	5.29	4.85
3. Short-Term Debt/GDP	9.05	7.82	5.25	7.63	6.55	7.03
4. LT+IMF+ST DOD/GDP	49.55	72.45	68.66	74.82	68.43	70.39
Debt Service /Exports						
1. Public & Guaranteed LT	12.29	24.81	22.22	28.38	19.41	26.03
2. Private Non-guaranteed LT	6.16	7.70	7.04	4.96	5.84	3.30
3. Total Long-Term Debt Service	18.45	32.51	29.26	33.34	25.25	29.33
4. IMF Repurchases+Serv. Chgs.	0.82	7.31	8.23	8.81	6.88	8.02
5. Interest only on ST Debt	2.81	2.19	1.53	2.00	2.45	2.08
6. Total (LT+IMF+ST Int.)	22.08	42.01	39.02	44.15	34.58	39.43

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

1/ Includes leases.
2/ Fiscal year 1980 begins on 7/1/79 and ends on 6/30/80.
3/ Includes net lending and capital revenue.

Korea

The Republic of Korea has proved to be one of the most successful developing countries. Thirty years ago it was among the poorest, heavily dependent on agriculture, with perennial balance of payments deficits financed almost entirely through foreign grants. But GNP growth averaging 8 percent since 1960 has raised Korea's per capita income from $180 in 1960 to over $4,400 in 1989 (both in current prices) and has made the country into one of the front runners of newly industrialized economies. Today, Korea is the world's thirteenth largest trading nation and is making a name for itself in sophisticated industrial products such as video cassette recorders and automobiles.

Korea's remarkable development is usually attributed to its strong outward orientation and its reliance on signals and incentives to investment (such as exchange rates, interest rates, and domestic relative prices) that have been broadly in line with market based outcomes. In addition, flexible economic management has enabled it to adjust rapidly and decisively in response to shocks, a quality amply demonstrated in the wake of the oil shocks of the 1970s.

Since 1980, Korea's macroeconomic stance has been generally conservative and long-term structural adjustment problems have been forthrightly tackled through a series of major reforms. Trade reforms have involved a gradual reduction of restrictions on imports and the application of roughly uniform tariffs across different types of imports. Financial reforms have involved privatization of banks, granting of greater operational autonomy to banks, and the creation of a variety of financial instruments not subject to the formal system of interest rate management. Energy sector reforms have involved adjustments of fuel prices, diversification of energy sources, rephrasing of the power generation program to lower overall costs, and efforts to improve energy conservation.

Recent Economic Developments

The economy has fared well under the aegis of efficiency-oriented macroeconomic and structural policies. Such policies placed Korea in a good position to benefit from world economic recovery and declining oil and commodity prices after 1982. Growth averaged 8.6 percent under the Fifth Plan (1982-86) while inflation was held to under 5 percent; also, the fiscal deficit was cut to under 1.5 percent and the current account deficit to under 1 percent of GDP.

In the 1986-88 period, Korea experienced a major economic boom. Aided chiefly by the sharp decline in oil prices and enhanced competitiveness vis-a-vis Japan in the world market (due to the substantial appreciation of the Japanese yen), the Korean economy grew at 12.9 percent in 1986 while accumulating a current account surplus, the first-ever in its modern economic history, of $4.6 billion. In 1987, GNP grew at 12.8 percent while the current account registered a surplus of $9.9 billion. This trend continued in 1988 with GNP growth of 12.2 percent and a $14.2 billion current account surplus. Korea's external debt position has improved dramatically since the early 1980s to the extent that during 1986-88 Korean investment overseas has been encouraged and has increased significantly. Its external debt declined from a peak of $47.2 billion in December 1985 to $33.7 billion by the end of 1989, and all debt ratios have improved accordingly.

In 1989, the trend of high growth with substantial current account surpluses turned around. GNP growth in 1989, at 6.7 percent, was disappointingly low. Exports recorded negative growth in the first half of the year. And inflation was 5.7 percent, lower than the 1988 rate of 7.1 percent, but well above the average of 2.7 percent during 1984-87. These growth and price developments are attributed to two major factors: first, a lagged effect of the won appreciation in relation to the U.S. dollar by 8 percent in 1987 and 14 percent in 1988, which reduced export demand; and second, large wage increases, workplace stoppages, and labor productivity decline owing to labor strife during the last two years.

There was some recovery in exports in the second half of 1989, and for the year exports totaled $62.4

billion, up from $60.7 billion in 1988. Imports surged, in response to trade liberalization and won appreciation. The total value of imports increased from $51.8 billion in 1988 to $61.5 billion in 1989. As a result, the current account surplus declined to $5.1 billion. The same basic trends are likely to continue in 1990.

Objectives and Medium-Term Prospects

The government's development objectives are to build an advanced economy based on efficiency and equity. These objectives represent the first phase for laying a foundation for Korea to become an industrially advanced country in the twenty-first century. To help achieve these objectives, the guidelines for the Revised Sixth Plan (1987-91) call for an average growth rate of 8.2 percent to be achieved via an export growth rate of 8.9 percent and a national savings rate of 33.5 percent by 1991. This is to be accompanied by stable prices and sustained current account surpluses.

The prospects for achieving these targets depend on the management of the current slowdown. Korea will face challenges from both domestic and international sources. First, appreciation of the currency could affect Korea's competitiveness vis-à-vis major competitors, especially considering the stability of the Japanese yen and New Taiwanese dollar in 1988 after their major appreciation during the past few years. Second, owing to widespread disputes the rate of wage increase was about 17 percent in 1987 and 14 percent in 1988, and another 17 percent in 1989. Without corresponding increases in productivity, this has caused sharp increases in unit labor costs and affected competitiveness adversely.

Given exchange rates, the expansion of the OECD economies usually sets a ceiling on Korean export growth. Korea's targets are predicated on conservative assumptions about OECD growth and should be achieved even if the present most-likely growth forecasts prove somewhat optimistic. Korea also remains vulnerable to the price of oil. That commodity accounted for more than a quarter of Korea's import bill in 1980, but with the sharp drop in oil prices its share of imports declined to only 7 percent in 1988. Any sharp increase in the price of oil would likely have a negative effect on Korea's growth and balance of payments.

Korea must also continue to be vigilant about protectionism. There is some concern that persistent trade surpluses will provoke more intense protectionism against Korean exports, especially in the United States. Korea must continue to take steps to forestall such an occurrence and to soften its potential impact by accelerating import liberalization, by engaging in joint ventures (as it is doing in autos, steel, and electronics) both in Korea and abroad, and by diversifying export markets. The decline in the external surplus in 1989 should help Korea in its trade diplomacy.

Exchange rate management will also be a critical factor. The Korean government is planning to introduce a new "market-determined" system which will replace the current "basket" system of a managed float from next year. This reform of exchange rate management has two goals. First, it deflects criticism of Korea as an exchange-rate manipulating country. Second, it would introduce more flexibility in incorporating cross-exchange rate movements of the U.S. dollar, yen, and deutsche mark into the value of the won.

Korea's average labor costs have risen as workers have sought higher standards of living. This phenomenon has been accelerated by recent domestic labor strife, unleashed by moves toward greater democracy, in which the principal demand of most workers has been for enhanced wages and benefits. To deflect the impact of increases in labor costs Korea is increasing investments in domestic research and development and skill upgrading, so that it can jettison those industries in which it is losing its labor cost advantage and move into others not as dependent on low-cost labor. At the same time the government will try to reconcile different interest groups through a National Wage Mediation Committee composed of government officials, employers, employees and other groups. Meanwhile, given the increased wage structure, labor-intensive manufacturing, construction and mining industries are to request the government to clear the way for a low-paid foreign work force.

The Korean government will be focusing increasingly on social development especially as democratization progresses. This emphasis on social expenditure increase to improve the standard of living of low income households is clearly indicated in the Sixth Five-Year Plan. Any investments in social sectors, however, are likely to be largely financed with domestic funds as domestic savings in Korea are still running substantially ahead of planned domestic investment.

KOREA, REPUBLIC OF

Mid-1988 Population (mils.)	43
1988 Per Capita GNP in US$:	3,600

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	9.5	8.7	9.7	11.3	6.3
Net Indirect Taxes	5.9	7.6	11.9	11.6	11.6	..	..	..	..	..	..
Agriculture	38.0	24.5	14.9	10.5	10.8	..	2.9	0.7	3.7	9.0	5.5
Industry	24.8	32.0	41.3	43.5	43.3	..	18.0	14.5	12.6	11.7	6.0
(of which Manufacturing)	18.0	25.1	29.7	32.2	31.6	..	20.9	15.3	13.5	13.0	5.5
Services	37.2	43.5	43.7	46.0	45.9	..	10.9	8.6	8.9	11.4	6.8
Resource Balance	-7.4	-2.9	-7.4	8.0	8.5	3.5	..	..	..	..	..
Exports of GNFS	8.6	29.7	34.0	41.7	40.8	35.2	32.4	16.6	13.5	13.1	3.3
Imports of GNFS	16.0	32.6	41.5	33.7	32.3	31.6	24.1	15.5	9.2	12.2	13.0
Total Expenditures	107.4	102.9	107.4	92.0	91.5	..	9.5	8.8	8.1	10.8	10.2
Total Consumption	93.5	78.0	76.2	63.3	62.1	..	7.8	6.8	7.1	9.8	9.7
Private Consumption	84.1	69.7	64.6	53.3	51.9	..	7.9	6.6	7.4	9.4	9.9
General Government	9.4	8.4	11.5	9.9	10.2	..	7.7	7.7	5.3	11.8	9.0
Gross Domestic Investment	15.1	24.5	31.7	29.2	29.8	..	19.0	14.5	10.5	13.0	11.2
Fixed Investment	14.9	23.0	32.1	28.5	28.8	..	17.4	16.7	10.5	11.8	11.2
Changes in Stocks	0.2	1.4	-0.4	0.8	1.0	..	..	..	..	..	..
Gross Domestic Saving	7.7	21.6	24.3	37.3	38.3	..	23.7	14.6	17.9	15.3	-3.5
Net Factor Income	1.0	-0.8	-3.4	-2.2	-1.4	..	..	..	..	..	..
Net Current Transfers	2.3	1.1	0.6	0.9	0.8	0.1	..	..	..	..	..
Gross National Saving	11.0	22.0	21.5	36.0	37.8	..	17.5	12.7	19.8	17.8	-4.6

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	16,441	34,394	57,710	108,034	120,197	127,780	9.5	8.7	9.7	11.3	6.3
Capacity to Import	675	7,525	16,276	45,051	51,582	51,264	32.5	15.9	15.4	14.5	-0.6
Terms of Trade Adjustment	10	329	-1,890	0	630	-1,344	..	..	..	..	..
Gross Domestic Income	16,450	34,723	55,820	108,034	120,827	126,435	9.6	8.5	10.2	11.8	4.6
Gross National Product	16,604	34,262	55,815	105,630	118,522	126,447	9.2	8.4	10.0	12.2	6.7
Gross National Income	16,613	34,591	53,925	105,630	119,153	125,102	9.3	8.2	10.5	12.8	5.0

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	67.0	94.4	97.0	100.0	107.1	113.3	12.0	17.7	4.7	7.1	5.7
Wholesale Prices (IFS 63)	78.7	101.0	99.5	100.0	102.7	104.2	8.5	18.7	2.1	2.7	1.5
Implicit GDP Deflator	65.9	93.8	96.5	100.0	104.3	108.9	16.1	21.7	5.1	4.3	4.5
Implicit Expenditures Defl.	68.8	96.6	97.3	100.0	104.2	..	15.5	21.6	4.5	4.2	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.2	1.7	1.4
Labor Force	..	..	..
Gross Natl. Income p.c.	7.0	6.4	9.0
Private Consumption p.c.	5.5	4.9	5.9
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	2.5	1.8	1.0
Marginal Savings Rates:			
Gross National Saving	32.6	22.5	52.4
Gross Domestic Saving	34.0	28.2	51.2
ICOR (period averages):	..	3.7	3.1

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	55.1	45.1	36.4	..
Industry	15.1	22.0	26.8	..
Services	29.8	32.8	36.8	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.MAN.TEXT	100.0	150.0	179.0	..	..	..	2,950	4,450	5,483	7,537	8,695	9,096
X.MAN.Y	..	..	..	..	..	..	877	1,534	2,059	2,756	3,801	3,588
X.MAN.X	..	..	..	..	..	..	618	5,040	1,815	1,138	1,760	1,789
X.MAN.Z	..	..	..	..	..	..	50	519	1,343	2,748	3,336	2,048
Manufactures	100.0	185.0	..	..	..	..	14,606	21,787	27,609	38,068	..	..
Residual	100.0	142.0	..	..	..	..	-1,596	-3,047	-3,594	-4,966	43,104	45,857
Total Exports FOB	100.0	181.0	205.0	251.6	289.6	299.0	17,505	30,283	34,715	47,281	60,696	62,377
F. Merchandise Imports												
Food	100.0	128.0	..	..	..	..	2,189	1,795	..	..	..	..
Fuel and energy	100.0	120.0	..	..	..	..	6,638	7,333	5,052	6,022	5,987	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	6,859	..	..	..	..	..
Capital goods	..	..	..	..	..	..	5,125	11,081	11,326	..	..	..
Total Imports CIF	100.0	155.0	168.0	202.3	223.6	252.7	22,292	31,136	31,584	41,020	51,811	61,465

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	100.0	95.6	96.7	107.4	119.7	122.5
Merch. Imports Price Index	100.0	90.1	84.3	91.0	103.9	109.7
Merch. Terms of Trade	100.0	106.1	114.7	118.0	115.2	111.6

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	21,921	32,035	40,779	55,041	69,312	71,362
Merchandise (FOB)	17,214	26,442	33,913	46,244	59,648	61,281
Non-Factor Services	4,707	5,593	6,866	8,797	9,664	10,081
Imports of Goods & NFS	25,655	30,555	34,305	43,982	55,032	64,990
Merchandise (FOB)	21,598	26,461	29,707	38,585	48,203	56,767
Non-Factor Services	4,057	4,094	4,598	5,397	6,829	8,223
Resource Balance	-3,734	1,480	6,474	11,059	14,280	6,372
Net Factor Income	-2,036	-2,945	-2,896	-2,423	-1,567	-1,506
(interest per DRS)	1,636	2,776	2,860	2,386	2,142	1,920
Net Current Transfers	399	555	1,028	1,199	1,404	237
(workers' remittances)	0	0	0	0	0	0
Curr. A/C Bal. before Off. Transf.	-5,371	-910	4,606	9,835	14,117	5,103
Net Official Transfers	50	23	11	19	44	0
Curr. A/C Bal. after Off. Transf.	-5,321	-887	4,617	9,854	14,161	5,103
Long-Term Capital Inflow	1,987	2,229	-2,571	-8,562	-3,407	-3,412
Direct Investment	-7	200	325	418	720	-316
Net LT Loans (DRS data)	2,426	2,675	-1,557	-8,734	-2,401	-3,435
Other LT Inflow (Net)	-432	-646	-1,339	-246	-1,726	339
Total Other Items (net)	3,645	-1,150	-1,969	812	-1,438	705
Net Short Term Capital	3,983	-267	-1,422	-372	-847	302
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-338	-883	-547	1,184	-591	403
Changes in Net Reserves	-311	-192	-77	-2,104	-9,316	-2,396
Net Credit from the IMF	545	-59	41	-1,024	-525	0
Other Reserves Changes	-857	-133	-118	-1,080	-8,792	-2,396
As Share of GDP:						
Resource Balance	-6.0	1.6	6.1	8.4	8.3	3.1
Interest Payments	2.6	3.0	2.7	1.8	1.3	0.9
Current Account Balance	-8.6	-1.0	4.3	7.5	8.2	2.5
Memorandum Items:						
Reserves excl. Gold (mil. US$)	2,925	2,869	3,320	3,584	12,347	15,214
Reserves incl. Gold (mil. US$)	3,101	2,972	3,443	3,739	12,478	15,342
Official X-Rate (LCUs/US$)	607.43	870.02	881.45	822.57	731.47	671.46
Index Real Eff. X-R Base 1980	100.00	95.49	80.62	80.17	88.91	..
GDP (millions of current US$)	62,626	92,925	105,929	131,337	171,311	207,284

I. Budget (General Government)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	25.5	22.6	22.4	21.3	22.1	..	18.4	14.2	18.5	3.8	..
Current Expenditures	18.8	16.1	15.6	14.0	14.5	..	17.6	11.2	11.9	19.6	..
Current Budget Balance	6.7	6.5	6.8	7.3	7.6	..	..	..	..	..	..
Capital Receipts	0.5	0.4	0.4	0.3	0.4	..	7.6	-0.4	-1.7	68.0	..
Capital Expenditures	6.5	6.1	5.8	5.1	4.9	..	19.0	9.4	10.9	10.1	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-3.0	-1.5	..	1.1	-1.4	..	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	1.0	0.6	-0.2	-0.3	0.2	..	..	..	..	..	..
Domestic Non-Bank Financing	0.3	-0.2	-0.2	-0.8	1.2	..	..	..	..	..	..
Domestic Bank Financing	1.7	1.1	0.3	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	1,940	2,533	-1,511	-8,267	-2,169	-2,182	15,933	28,304	29,354	24,541	21,349	18,083
Official Creditors	650	135	-384	-888	-730	-556	6,332	10,143	11,008	11,668	10,445	9,278
Multilateral	233	162	-90	-394	-885	-591	2,361	4,591	5,313	5,882	4,572	3,892
of which IBRD	188	111	-102	-277	-813	-215	1,723	3,594	4,304	4,990	3,751	3,411
of which IDA	-1	-2	-2	-2	-2	-2	113	107	106	104	102	100
Bilateral	417	-27	-294	-493	154	35	3,970	5,552	5,695	5,786	5,873	5,385
Private Creditors	1,289	2,398	-1,128	-7,380	-1,438	-1,626	9,601	18,162	18,347	12,873	10,904	8,806
Suppliers	48	-261	479	-346	-55	-262	2,868	1,395	2,122	2,121	1,940	1,635
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	487	142	-46	-466	-232	-1,253	2,303	6,614	6,569	6,103	5,912	5,800
Total LT	2,426	2,675	-1,557	-8,734	-2,401	-3,435	18,236	34,918	35,923	30,644	27,261	23,883
IMF Credit	592	-229	-125	-1,174	-497	0	683	1,508	1,549	525	0	0
Net Short-Term Capital	3,983	-267	-1,422	-372	-847	302	10,561	10,732	9,256	9,291	9,780	9,790
Total incl. IMF & Net ST	7,002	2,179	-3,104	-10,280	-3,745	-3,133	29,480	47,158	46,728	40,459	37,041	33,673

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	9.45	10.29	11.98	16.28	13.76	14.28
2. IDA as % of Total	0.62	0.31	0.29	0.34	0.38	0.42
3. IBRD+IDA as % of Total	10.07	10.60	12.27	16.62	14.14	14.70
Share of LT Debt Service						
1. IBRD as % of Total	6.61	7.29	7.94	7.80	19.29	8.99
2. IDA as % of Total	0.05	0.03	0.02	0.02	0.03	0.04
3. IBRD+IDA as % of Total	6.65	7.33	7.97	7.81	19.32	9.03
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	80.77	105.47	85.60	54.47	38.45	32.65
2. IMF Credit/Exports	3.02	4.56	3.69	0.93	0.00	0.00
3. Short-Term Debt/Exports	46.78	32.42	22.06	16.52	13.79	13.38
4. LT+IMF+ST DOD/Exports	130.57	142.45	111.35	71.92	52.24	46.03
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	29.12	37.58	33.91	23.33	15.91	11.52
2. IMF Credit/GDP	1.09	1.62	1.46	0.40	0.00	0.00
3. Short-Term Debt/GDP	16.86	11.55	8.74	7.07	5.71	4.72
4. LT+IMF+ST DOD/GDP	47.07	50.75	44.11	30.81	21.62	16.24
Debt Service /Exports						
1. Public & Guaranteed LT	12.33	15.26	16.86	21.95	9.10	7.62
2. Private Non-guaranteed LT	1.80	6.43	7.09	5.63	3.28	3.12
3. Total Long-Term Debt Service	14.13	21.69	23.95	27.58	12.38	10.74
4. IMF Repurchases+Serv. Chgs.	0.22	1.56	0.96	2.29	0.79	0.02
5. Interest only on ST Debt	5.36	3.93	2.05	1.20	1.20	1.15
6. Total (LT+IMF+ST Int.)	19.71	29.27	30.48	31.07	14.36	11.91

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Lao People's Democratic Republic

Lao People's Democratic Republic is a landlocked country with an area of 236,800 square kilometers. With an estimated per capita income of approximately $220 in 1988, it is one of the poorest countries in the world, despite considerable resources of land, timber, and minerals and its potential for hydroelectric power. Most of the country's 3.9 million people live in small and scattered villages. The structure of production and employment is dominated by agriculture, which accounts for about 61 percent of GDP and provides about 80 percent of total employment. The predominant crop is rice, which takes up more than 80 percent of the cultivated area. The industrial sector is small, contributing about 14 percent of GDP, and consists mainly of tin and gypsum mining, electricity production, small enterprises processing local raw materials, particularly food and wood, and consumer goods industries serving largely the Vientiane area.

For the first decade after its creation in 1975, the government tried to build an economy based on socialist principles. Industry and trade were nationalized, while in agriculture the number of state farms and cooperatives was increased. State intervention supplanted market forces, while rigid official prices, an overvalued exchange rate and government monopoly on external trade distorted incentives and gave rise to a widespread parallel market for goods and foreign exchange. As domestic savings were very low, government relied heavily on external assistance for its investment budget. The rapid increase in bilateral assistance from the nonconvertible currency area provided the means required to finance public investment expenditures. However, because of lack of budgetary revenues and the priority given to investment as opposed to maintenance, government expenditures on operations and maintenance were very limited and complementary inputs required for the efficient use of capital assets often were not available.

In this framework, the expected benefits from high investment in infrastructure and a few large industrial projects failed to materialize. Rice was the only commodity which, according to official statistics, showed rapid growth. Manufacturing output fell in 1980-84, and production of other industrial goods (hydroelectricity and minerals) was flat during the same period. Furthermore, growth in other sectors such as transport and commerce was extremely slow. The pattern of growth that emerged in 1975-85 was characterized by a growing share of subsistence-oriented activities, little dynamism in the modern sector (with the exception of hydroelectricity in the late 1970s), and a development pattern that did not reflect the country's comparative advantage.

By the mid-1980s it was becoming increasingly clear that the previous development pattern was failing. Due to a lack of dynamism in non-subsistence activities, the government faced mounting difficulties in mobilizing domestic resources to finance budgetary expenditures. These had to be financed by larger external borrowings and monetary expansion. While the government avoided direct recourse to domestic bank credit, public enterprises were forced, irrespective of performance, to transfer large amounts to the budget, which forced them to borrow heavily from the banking system. The resultant rapid growth of domestic bank financing fueled domestic inflation, which averaged 53 percent a year during 1983-85.

Recent Economic Development

It is against this background that the Lao government initiated a program of reforms in 1985, known as the New Economic Mechanism, which was further extended and modified in 1987 and 1988. Initially the reform program was focused on extending autonomy to state enterprises, but emphasis increasingly was given to removal of government restrictions on trade, elimination of the system of multiple exchange rates, and price liberalization. The cornerstone of this policy has been the unification of exchange rates and their alignment with the market level. These policy changes were motivated by the expectation that improvement in the terms of trade would make export expansion and higher growth feasible. Also, it was expected that the elimination of quantitative import restrictions would stimulate efficiency gains and facilitate the supply response to the program of reforms.

Following reform of its exchange rate and trade policies, the government launched a far-reaching initiative to revitalize agriculture. Procurement prices for agricultural goods were raised to market levels and preferential treatment of cooperatives and state farms was officially abandoned in 1988. This policy resulted in a substantial improvement in the domestic terms of trade in favor of agriculture and provided the incentives required for farmers to increase agricultural production. The emphasis on private farming greatly improved the consistency of the reforms by ensuring that agricultural production could respond more quickly to the incentives being offered.

A key decision taken in mid-1987 was to give more autonomy to state enterprises and make them responsible for decisions on production levels and product mix, financial management, choice of suppliers and market, pricing and manpower management. In addition, the government decided to abolish budgetary subsidies to state enterprises and to eliminate the automatic financing of enterprises' financial needs by the banking sector. This reform was broadened by allowing all forms of enterprises, including private firms and joint-ventures, and by stimulating competition among the various groups of economic agents. Finally, in 1989, the government embarked on a large program of disengagement from state enterprises.

Despite severe exogenous shocks, this policy has already shown signs of success in revitalizing economic activities. Real growth recovered in 1988-89 to rates of 5-6 percent. This recovery was driven primarily by private sector expenditure but is still fragile. The expansion of production in 1989 owes much to a bumper crop after two years of protracted drought. Some economic tensions have, however, developed in 1989 as revealed by the acceleration of inflation from an average 7 percent in 1987-88 to about 50 percent in 1989, difficulties in tax collection and the deterioration of the trade balance. These difficulties originate in a decline in public sector savings.

For the public sector, the transition to a market system has had its costs. The reforms unveiled prevailing inefficiencies (including over-staffing, weak management, obsolete techniques, etc.) which were previously hidden by price distortions. The transition itself has carried its own costs under the form of severance payments to redundant employees, difficulties in holding nominal wages in check and adjusting the tax apparatus. Finally, exogenous factors (lower export prices and a drought-induced reduction in production) have affected the largest source of public sector revenues: hydroelectricity. The authorities endeavored to offset these developments by curbing government expenditure and by reforming the tax system to mobilize additional revenues, primarily through indirect taxes. Government efforts were, however, offset by state enterprises poor performance and public savings are estimated to have declined from 2.3 percent of GDP in 1986 to negative levels in 1989.

From 1986 to 1988, exports weathered external shocks and provided a substantial contribution to GDP expansion. Merchandise exports other than electricity rose by an estimated 52 percent mostly because of an increase in logs and wood exports. In 1989, however, a temporary ban on log exports caused a quasi-stagnation in total exports. Imports of goods and nonfactor services expanded over the same period (1986-89) at an annual rate of 7 percent along with GDP growth. The consequent expansion in the current account deficit from US$60.9 million in 1986 to US$100 million in 1989 was financed thanks to a substantial increase in aid flows from the convertible zone. As this assistance was primarily under the form of credit, the country accumulated foreign debt from US$323.1 million to US$546 million in 1989. However due to the high concessionality of foreign exchange flows on the one hand and the renegotiation of the outstanding debt with the country's major bilateral donors (rescheduling with France, refinancing through grants with Japan and deferment of debt payments to the U.S.S.R. to the next century) the debt service ratio increased only moderately from 12.5 percent of exports in 1986 to 14.1 percent in 1989.

Development Objectives and Medium-Term Outlook

Over the medium term, the government's objectives are to (i) position the private sector to be a stronger driving force in the economy and to promote exports vigorously; (ii) restore public enterprise profitability; (iii) strengthen domestic resource mobilization efforts through tax and financial sector reforms; (iv) create improved institutions and instruments of macroeconomic management and improve the process of policy-making and planning; and (v) achieve a more efficient use of foreign aid inflows. The government aims at maintaining the real GDP growth rate experienced in recent in recent years. In order to meet this target, the government is committed to the maintenance of present policies of market-determination of prices, public enterprise autonomy, flexible management of a unified exchange rate and prudent fiscal and monetary policies. Sustaining a high growth rate requires a broadly based and diversified economic structure and depends on increased productive capacity and on a significant improvement in the efficiency of investment.

Transforming the recent growth recovery into long-term growth will require, in addition, a fresh effort at developing the country's human and physical capital, thus a recovery in investment and operation and maintenance expenditure. The government is currently preparing its Third Five-Year Plan (1991-95). The new investment plan will continue to emphasize the development of transport and energy. These priorities are consistent with the most urgent needs of the country to stimulate agriculture production, exploit the vast hydroelectric potential both for exports and domestic use, integrate the fragmented economy and overcome the bottlenecks caused by a landlocked position.

By contrast with the previous plans, the social sectors, in particular health and education, will be brought to the forefront of the development strategy to alleviate the present human resource constraints to sustained growth. The implementation of the Five-Year Plan will be accompanied by institutional changes in the field of project assessment, monitoring and execution as well programming for recurrent cost requirement. Furthermore, the efficiency of investment will be improved by increasing the share of total investment undertaken by autonomous bodies within a framework of market prices, in particular by enterprises currently being privatized.

The government will emphasize mobilizing additional domestic resources to support this higher investment level, principally through public sector policies. Fiscal policy will aim at restoring a current surplus in the early nineties. The simplification of the tax system and upgrading of its administration, the adjustment of public tariffs and user charges and a better remuneration of government financial assets are expected to generate additional revenues while the evolution of current expenditures is contained to the recurrent costs requirements of higher capital expenditure. Additional public savings will be generated through the privatization or restructuring of state enterprises and a closer monitoring of their financial performance. Finally, ongoing financial reforms (restructuring of the banking system, adjustment of interest rates to positive levels in real terms) should gradually encourage higher private financial savings.

Despite these resource mobilization efforts, substantial foreign assistance will be needed to support the expansion in investment. A UNDP Round Table met in April 1989 to coordinate this effort and a new one is scheduled for April 1991. Foreign funds averaging US$190 million per year are required to finance the current account deficit and permit a build-up in reserves. As a result of a sizable increase in foreign assistance, mainly under the form of credit, the projected external debt would rise from US$413 million in 1988, but the impact on the debt service ratio will be mitigated by the large concessional element of the external debt and the debt relief already obtained from the country's largest creditors. Lao PDR will benefit from the deferment of debt payments to 2000 by the U.S.S.R., its largest nonconvertible currency creditor. Also, France has cancelled outstanding official loans and rescheduled commercial credit on concessional terms, while Japan is extending additional grants to Lao PDR. Consequently, the projected debt service ratio would decline, from 14 percent of exports of goods and non-factor services in 1988-89.

Adjustment on the external side will take the form of a more rapid growth in exports than in imports. Imports would initially continue to grow faster than GDP, reflecting the recovery in investment expenditure, but would be outpaced by GDP growth starting from 1992. Exports will be stimulated by the maintenance of a market-related exchange rate, the recent liberalization of the trade regime for traditional exports and the open attitude toward foreign investment. They are projected to pick up thanks to a recovery in electricity exports, the gradual return of timber and wood exports to their sustainable level and the development of non-traditional exports such as livestock, spices, garment and textiles, processed agricultural produce, etc. These developments would permit a continued decline in the current account deficit relative to GDP. However, as imports are currently much higher in absolute terms than exports, the current account deficit in dollar terms would only stabilize toward the mid 1990s.

LAO PDR

Mid-1988 Population (mils.)	3.9
1988 Per Capita GNP in US$:	180

	A. Shares of Gross Domestic Product *(from current price data)*						B. Growth Rates(% per annum) *(from constant price data)*				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	..	5.3	6.5
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	..
Agriculture	..	..	..	..	..	..	..	..	..	3.7	-0.3
Industry	..	..	..	..	..	..	..	..	..	-0.6	26.2
(of which Manufacturing)	..	..	..	..	..	..	..	..	..	-5.9	28.6
Services	..	..	..	..	..	..	..	..	..	5.6	12.4
Resource Balance	..	..	..	-8.3	-16.5	-23.8	..	..	..	..	..
Exports of GNFS	..	..	..	9.7	19.6	13.5	..	..	..	11.3	-26.4
Imports of GNFS	..	..	..	18.0	36.1	37.3	..	..	..	7.6	8.1
Total Expenditures	..	..	..	108.3	116.5	123.8	..	..	..	5.1	9.9
Total Consumption	..	..	..	99.3	103.7	111.2	..	..	..	6.3	10.4
Private Consumption	..	..	..	88.5	87.0	97.4	..	..	..	7.0	12.1
General Government	..	..	..	10.8	16.7	13.8	..	..	..	0.5	-4.4
Gross Domestic Investment	..	..	..	9.0	12.8	12.6	..	..	..	-8.1	4.2
Fixed Investment	..	..	..	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	..	..	0.7	-3.7	-11.2	..	..	..	..	..
Net Factor Income	..	..	..	-0.3	-0.6	-0.7	..	..	..	..	..
Net Current Transfers	..	..	..	0.4	1.3	1.4	..	..	..	..	..
Gross National Saving	..	..	..	0.8	-3.1	-10.5	..	..	..	-80.4	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	..	..	165	173	185	..	..	..	5.3	6.5
Capacity to Import	..	..	..	16	17	13	..	..	..	8.7	-27.8
Terms of Trade Adjustment	..	..	..	0	-410	-537	..	..	..	..	..
Gross Domestic Income	..	..	..	165	173	184	..	..	..	5.0	6.5
Gross National Product	..	..	..	164	172	183	..	..	..	5.0	6.4
Gross National Income	..	..	..	164	172	183	..	..	..	4.7	6.4

			(1987 = 100)				*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	100.0	106.2	113.7	173.7	..	..	..	7.1	52.7
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	..	58.6	88.4	100.0	118.3	186.3	..	..	..	18.3	57.6
Implicit Expenditures Defl.	..	56.6	85.7	100.0	127.4	206.7	..	..	..	27.4	62.3

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.3	1.2	2.4
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	..	..	..
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	81.0	77.9	75.7	..
Industry	4.6	5.8	7.1	..
Services	14.5	16.3	17.2	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FUEL.X	..	..	..	..	..	..	..	26	30	12	11	15
X.TIM	..	..	..	..	..	..	..	8	6	24	24	17
X.BEV.COFFEE	..	..	..	..	..	..	..	3	5	4	3	5
X.MET.SN	..	..	..	..	..	..	..	1	2	2	1	1
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	17	17	19	47	34
Total Exports FOB	..	..	..	..	..	..	..	54	60	60	86	72
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	..	..	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports CIF	..	..	..	..	..	..	..	131	131	146	162	168

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	..	76	84	87	109	102
Merchandise (FOB)	..	54	60	60	86	72
Non-Factor Services	..	21	24	26	23	31
Imports of Goods & NFS	..	154	145	161	187	203
Merchandise (FOB)	..	131	131	146	162	168
Non-Factor Services	..	23	14	15	25	34
Resource Balance	..	-78	-61	-75	-77	-100
Net Factor Income	..	-3	-2	-3	-3	-4
(interest per DRS)	1	1	2	2	2	2
Net Current Transfers	0	0	4	4	7	8
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	..	-81	-59	-74	-74	-96
Net Official Transfers	..	47	28	24	36	40
Curr. A/C Bal. after Off. Transf.	..	-34	-32	-49	-39	-57
Long-Term Capital Inflow	..	42	38	40	51	86
Direct Investment	..	..	..	..	5	8
Net LT Loans (DRS data)	37	30	101	109	112	129
Other LT Inflow (Net)	..	12	-63	-69	-66	-51
Total Other Items (net)	..	13	2	-2	-17	-11
Net Short Term Capital	..	3	4	4	5	5
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	..	10	-2	-6	-21	-16
Changes in Net Reserves	3	-21	-9	11	5	-18
Net Credit from the IMF	-1	-6	-2	0	0	8
Other Reserves Changes	3	-15	-7	11	5	-25
As Share of GDP:						
Resource Balance	..	-6.1	-3.7	-8.1	-14.5	-17.4
Interest Payments	..	0.1	0.1	0.2	0.4	0.4
Current Account Balance	..	-6.3	-3.6	-8.1	-13.9	-16.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	13	25	32	21	16	..
Reserves incl. Gold (mil. US$)	13	25	32	21	16	0
Official X-Rate (LCUs/US$)	10.22	45.00	95.00	175.12	392.01	583.01
Index Real Eff. X-R Base 1980	0.00	0.00	0.00	0.00	0.00	0.00
GDP (millions of current US$)	..	1,290	1,649	915	533	574

I. Central Government Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	10.6	11.8	12.2	13.8	10.0	..	79.7	8.7	40.3	21.6
Current Expenditures	..	11.0	10.1	10.2	13.0	18.4	..	49.5	6.0	58.7	137.3
Current Budget Balance	..	-0.3	1.7	2.0	0.7	-8.5	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	10.5	7.5	7.2	25.7	17.3	..	15.2	0.9	344.5	13.2
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-10.9	-5.8	-5.2	-24.9	-25.8	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	..	..	..	..	..	..	..	..	..	..	..
Domestic Nonbank Financing	..	..	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	..	..	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	37	30	101	109	112	129	277	466	589	719	816	942
Official Creditors	37	30	101	109	112	129	271	463	585	714	816	942
Multilateral	7	9	13	10	21	38	21	64	85	99	117	150
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	5	0	7	5	10	35	6	27	40	48	57	93
Bilateral	30	22	88	99	91	92	250	398	500	616	700	791
Private Creditors	0	0	0	0	0	0	6	4	4	5	0	0
Suppliers	0	0	0	0	0	0	6	4	4	5	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	37	30	101	109	112	129	277	466	589	719	816	942
IMF Credit	4	-2	-3	-3	-3	6	16	10	9	6	3	8
Net Short-Term Capital	..	3	4	4	5	5	0	0	0	0	6	6
Total incl. IMF & Net ST	..	31	102	109	113	139	293	476	597	726	824	956

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	2.02	5.71	6.84	6.69	7.00	9.85
3. IBRD+IDA as % of Total	2.02	5.71	6.84	6.69	7.00	9.85
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	4.11	3.19	6.32	4.58
3. IBRD+IDA as % of Total	0.00	0.00	4.11	3.19	6.32	4.58
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	616.40	699.29	831.68	745.89	919.43
2. IMF Credit/Exports	..	13.76	10.10	7.28	2.38	8.11
3. Short-Term Debt/Exports	..	0.00	0.00	0.00	5.03	5.86
4. LT+IMF+ST DOD/Exports	..	630.16	709.38	838.96	753.29	933.40
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	..	36.11	35.70	78.62	153.19	164.09
2. IMF Credit/GDP	..	0.81	0.52	0.69	0.49	1.45
3. Short-Term Debt/GDP	..	0.00	0.00	0.00	1.03	1.05
4. LT+IMF+ST DOD/GDP	..	36.92	36.21	79.31	154.71	166.59
Debt Service /Exports						
1. Public & Guaranteed LT	..	8.47	8.67	10.87	8.68	12.79
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	..	8.47	8.67	10.87	8.68	12.79
4. IMF Repurchases+Serv. Chgs.	..	3.04	3.68	3.82	3.11	1.86
5. Interest only on ST Debt	..				0.37	0.49
6. Total (LT+IMF+ST Int.)	..	11.51	12.35	14.68	12.16	19.73

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Lesotho

Lesotho is a small country completely surrounded by the Republic of South Africa, with which it must co-exist, notwithstanding ideological differences. It is mountainous and, besides its people and abundant water, possesses few natural resources. About 12 percent of its 30,400 square kilometer is suitable for crop farming, but less than one percent has high potential. Crop production is a low-yield, high-risk occupation due to poor land quality and a harsh climate, and to the existence of more remunerative sources of income, namely employment in South Africa or receipt of remittances from relatives working there.

The most significant characteristic of Lesotho's economy is its heavy dependence on South Africa, where more than 95 percent of its imports originate, as does most of its foreign investment. About 38 percent of the male labor force is employed in South Africa (mainly in mining); remittances of migrant workers constitute about 46 percent of Lesotho's GNP. About 60 percent of government revenues are derived from receipts of duties and taxes collected by the Southern Africa Customs Union (SACU) on behalf of the member countries (Lesotho, Botswana, South Africa, and Swaziland). In addition, Lesotho is a member of the Common (formerly Rand) Monetary Area which, while guaranteeing payment on Lesotho's foreign financial commitments, limits its use of monetary policy instruments. On balance, however, given Lesotho's size, location and resource constraints, the gains from membership in the Customs Union and the Monetary Area outweigh the costs associated with the limitations on policy instruments.

During the first half of the present decade, Lesotho experienced slower economic growth than in the 1970s. The primary diamond mine closed in 1982, and the country experienced harsh weather conditions, including drought. Growth has been much more encouraging since 1986. Real GDP has increased at an annual average rate of 8.3 percent per annum, while real GNP has grown at a somewhat lower rate of 5.5 percent given stagnation in the real value of mineworker remittances. This improvement in growth performance is related to both rapid growth in manufacturing and the implementation of the preliminary phase of the Lesotho Highlands Water Project (see below). The growth rate of real GDP is estimated as 7.6 percent during 1989. This compares with a growth rate of real GNP at 5.6 percent. Although exports stagnated in nominal terms between 1980 and 1985, they have since increased in real terms at an average of 20 percent per year.

Between FY84[1] and FY88, the government's budgetary situation deteriorated as the fiscal deficit (including grants) grew from 1.9 to 9.6 percent of GNP. This was associated with a deterioration in the external current account (inclusive of current transfers) from a surplus of 1.1 percent of GNP in FY84to a deficit of 6.6 percent of GNP in FY88. Provisional estimates indicate that, given both the implementation of revenue-raising measures and restraints upon expenditure growth, the fiscal deficit fell to 3.3 percent of GNP during FY89. The external current account deficit improved correspondingly from 6.6 percent of GNP in FY88 to an estimated 3.9 percent of GNP in FY89.

Debt service as a proportion of exports of goods and services rose from 4.0 percent in 1978 to 5.9 percent at the end of 1989. The rate of inflation, as calculated from the retail price index, rose from 11.5 percent in 1988 to 14.7 percent in 1989, in line with price developments in South Africa.

Constraints and Challenges

The economy faces several structural weakness, constraints and challenges, as outlined below.

Environmental Degradation. Each year Lesotho is losing extensive topsoil, which is washed into gullies and the river systems. The declining soil fertility has inevitably resulted in falling productivity. Lesotho ceased being an exporter of maize in the 1930s, and in

1. Fiscal year begins March 30 of the specified year.

recent years food imports have been growing at 15 percent annually. Control of livestock grazing has been complicated by the many roles played by livestock in traditional Basotho society.

Government proposals for land reform and improved agricultural techniques are being consolidated in a national environmental action plan that evolved from a national conference sponsored by the King. The plan identifies the country's main environmental problems, and is assembling an inventory of current development activities capable of addressing them, before embarking on any new investments. To implement the plan, the government intends to establish a supervisory body to coordinate the environmental initiatives of sectoral ministries.

Population. The link between population and environment is only too evident in Lesotho. In absolute terms, a population of 1.7 million growing at an annual rate of 2.6 percent is low compared with most other countries in Sub-Saharan Africa — but few African countries are experiencing such strains on the carrying capacity of the land. The pressures are particularly acute in the urban sector. Inadequate and costly institutions have failed to cope with a drift to the towns, where a third of Lesotho's population is likely to reside by the end of the century. Although family planning support is provided by the government, the quality of service is constrained by the fact that more than half of the country's primary health care is delivered through church-run institutions. The country's leaders have declared their support for population control, and the government has begun a consultative process with NGOs and rural communities to formulate a population policy.

Land Reform. All land in Lesotho belongs to the tribe. Rights of use are vested in the king, who delegates to the chiefs the authority for allocating land for seasonal cultivation and grazing. Population pressure is putting an intolerable strain on the system; as a result, concentrations of cattle are becoming unsustainable, and land-use allocations are increasingly inequitable. Women in particular are discriminated against. Although they run many of the farms in the absence of the men, they have not been able to obtain credit for seasonal inputs, and have scarcely enjoyed any land-use rights.

The Land Act of 1979 signalled the government's acceptance of the need for land reform. The legislation focussed particularly on ways of improving the productivity of neglected or poorly-farmed land by formalizing existing customary arrangements whereby allottees rent their holdings to more productive farmers or entrepreneurs who in turn provide them with seasonal employment. The act also facilitated the inheritance of land rights, strengthened the land-use rights of women, and required chiefs to share the responsibility of land allocation with village committees. These reforms stalled because of bureaucratic delay, and their implementation is now being addressed by the government.

Overgrazing. Like many other pastoralist countries in Africa, Lesotho has failed to control overgrazing or convince livestock holders that they can increase their incomes and reduce damage to the range by maintaining smaller herds and higher offtake rates. The government is introducing several measures to enhance sustainable development of the subsector, e.g. the cost of hoarding cattle will be increased by proposed grazing fees.

Educational Decline. Lesotho embarks on an era of expanding employment opportunity at home and changing labor needs in South Africa with a serious impediment: after a long history of educational achievement — in which literacy has been attained by almost three-quarters of the population — primary and secondary education are experiencing a decline in quality. At the primary level in particular, dropout rates are high, about a third of the classroom population is repeating grades, and under-qualified teachers typically cope with oversized classes. Training in math and basic science is inadequate. Overall investment in education has fallen proportionate to other sectors and other countries in the region. A continuing decline in standards could have dire consequences for the educational advantages that Basotho have usually enjoyed in competing for jobs in South Africa, apart from expanding domestic needs.

Highlands Water. Water is Lesotho's only abundant natural resource, while South Africa faces a serious water deficit in the near future. Thus South Africa concluded a treaty with Lesotho in 1986 for construction of an extensive system of dams and tunnels to transfer water from the Orange River system (known as the Senqu in Sesotho) in the Lesotho Highlands to the industrial Vaal triangle. The first phase of the scheme, known as LHWS, is due to be commissioned in 1995/96, when water sales to South Africa will begin; three subsequent stages will be completed by about the year 2017. This phase is being prepared by the Bank as an IBRD enclave project, with total costs provisionally estimated to approach $2 billion, including a 70 MW hydropower station to be funded by the EEC and bilateral donors. Most of the financing for the water transfer is expected to come from commercial and export-credit sources in South Africa and elsewhere, while the hydropower component would receive concessional funding from bilateral agencies.

Under the treaty between the countries, South Africa will meet the entire cost of the water transfer, in effect repaying the debt and meeting the debt service costs of the implementing agency, the Lesotho Highlands Development Authority, a parastatal body. The water royalties will be calculated according to an already-agreed formula. According to preliminary projections, the net present value of the royalty payments and customs union rebates for all phases of the water transfer scheme is more than $900 million in 1988 prices. Royalties from the export of water would start in 1995/96 at a level of about $18 million, and gradually increase to about $74 million a year some 25 years later.

The first-phase of the scheme will mobilize a workforce of some 5,500 by the fifth year of construction, while service activities are likely to provide employment for some hundreds more. If the right measures are taken, LHWS could be a training ground for developing local construction and mechanical skills. An additional benefit of LHWS will be its generation of hydro-electric power, which will substantially reduce Lesotho's power dependence on South Africa. It is expected that the scheme will generate significant secondary benefits, providing investment resources and an irresistible stimulus to new businesses that could initially serve the project and capitalize on the new spending power, then diversifying their products and markets from a position of strength. Acquisition of skills would be a by-product.

Industrial Opportunities. The IMF and the World Bank are helping the government carry out a reassessment of the financial and industrial sectors to define a strategy that will respond to the short-term industrial opportunities of LHWS, while tackling the basic constraints in these sectors. An impressive annual rate of growth of 18 percent in manufacturing GDP over two decades has not been matched by employment creation—indicating a pattern of capital-intensive development in an economy which must look to non-farm activities for absorbing a substantial number of approximately 20,000 young people who enter the labor market annually.

Although the relative efficiency of South African business has always been a constraint to enterprise development in Lesotho, the country has access to an expanding European market while investors in South Africa have faced market complications caused by sanctions. Moreover, Pretoria is considering modifying the extravagant incentives packages offered to companies investing in the so-called homelands, which have in the past competed with the BLS (Botswana, Lesotho and Swaziland) countries for foreign venture capital. Lesotho appears to have a comparative advantage in assembly-type manufacturing and in agro-industrial development based on indigenous resources (e.g. high-value crops, mohair, wool and cattle).

Budgetary Management. The predominant risk of the LHWS is that the substantial revenues it will generate for Lesotho will not be used well or equitably. Even at present revenue levels, Lesotho has not been able to control recurrent expenditures or successfully set priorities for public investment. Economic planning and budget management have been inadequate, often ignoring the recurrent cost implications of capital expenditures. The government has undertaken a program to reform the planning and budgetary process. The program's impact is already being felt, with greater budgetary restraint and improvement in financial reporting. The government is also discussing a program to restructure the civil service. A crucial question concerns the mechanism for controlling the use of water royalties and additional SACU rebates; the government is committed to establishing a special mechanism that would ensure that clear criteria are established for the use of funds.

LESOTHO

Mid-1988 Population (mils.)	2
1988 Per Capita GNP in US$:	410

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	3.9	8.5	2.4	12.3	7.6
Net Indirect Taxes	4.6	12.4	13.7	20.4	19.3	..	..	..	..	..	..
Agriculture	62.2	37.2	20.4	15.7	19.4	..	..	-0.5	-0.7	26.5	-18.9
Industry	4.6	9.5	25.0	24.1	24.1	..	..	24.8	2.9	17.0	21.7
(of which Manufacturing)	0.8	4.4	5.6	11.4	11.5	..	..	8.3	13.5	18.7	8.0
Services	28.6	40.9	41.0	39.8	37.3	..	..	6.7	4.9	5.6	3.2
Resource Balance	-37.8	-64.5	-102.1	-120.8	-103.1	-121.4	..	..	..	..	..
Exports of GNFS	15.6	14.6	20.3	17.0	19.2	15.0	5.0	13.1	1.5	24.9	-2.8
Imports of GNFS	53.3	79.0	122.3	137.8	122.3	136.4	9.7	12.6	0.4	6.9	2.7
Total Expenditures	137.8	164.5	202.1	220.8	203.1	221.4	6.8	10.5	1.2	8.0	8.3
Total Consumption	126.3	145.9	159.6	175.8	156.9	..	6.3	8.2	1.5	4.1	2.5
Private Consumption	108.7	132.1	123.8	144.9	128.0	..	6.4	7.1	1.2	4.5	2.6
General Government	17.6	13.8	35.8	30.9	28.8	..	5.4	18.1	3.0	1.8	2.5
Gross Domestic Investment	11.5	18.6	42.4	44.9	46.2	..	10.5	22.3	0.3	23.2	30.0
Fixed Investment	..	12.2	40.4	45.1	46.0	..	..	..	0.7	22.6	29.0
Changes in Stocks	..	6.4	2.0	-0.1	0.2	..	..	..	..	..	..
Gross Domestic Saving	-26.3	-45.9	-59.7	-75.8	-56.9	..	..	..	..	..	..
Net Factor Income	10.7	50.8	71.6	84.8	72.4	72.3	..	..	..	..	..
Net Current Transfers	0.0	53.0	0.6	0.1	1.0	0.7	..	..	..	..	..
Gross National Saving	-15.6	57.9	12.5	9.0	16.6	..	..	..	5.3	..	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	265	399	639	726	815	877	3.9	8.5	2.4	12.3	7.6
Capacity to Import	55	75	156	123	168	121	5.9	13.4	-0.8	36.0	-27.7
Terms of Trade Adjustment	-1	10	28	0	14	-28	..	..	..	..	..
Gross Domestic Income	263	409	667	726	829	849	4.1	8.7	2.0	14.2	2.4
Gross National Product	305	635	1,144	1,341	1,431	1,511	8.1	9.5	1.9	6.7	5.6
Gross National Income	304	645	1,173	1,341	1,445	1,483	8.2	9.6	1.7	7.7	2.6

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	40.7	75.8	89.5	100.0	111.5	127.9	..	14.2	13.7	11.5	14.7
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	44.8	79.8	91.6	100.0	119.0	140.5	4.4	10.6	12.7	19.0	18.1
Implicit Expenditures Defl.	39.9	76.0	89.4	100.0	113.9	..	3.9	10.6	14.3	13.9	..

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.1	2.5	2.7
Labor Force	..	..	..
Gross Natl. Income p.c.	6.0	6.9	-1.0
Private Consumption p.c.	4.2	4.4	-1.4
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	2.5	1.5	0.2
Marginal Savings Rates:			
Gross National Saving	85.9	-35.0	20.7
Gross Domestic Saving	-81.9	-85.9	-43.3
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	91.6	88.7	86.2	..
Industry	2.6	3.4	4.1	..
Services	5.8	7.9	9.7	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	..	..	..	..	..
Total Exports FOB	114.5	65.8	84.1	100.0	140.0	136.0	60	23	26	47	64	69
F. Merchandise Imports												
Food	..	..	..	..	..	..	99	66	67	..	..	..
Fuel and energy	..	..	..	..	..	..	45	32	32	..	..	..
Other Consumer Goods	..	..	..	..	..	..	116	90	103	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	91	86	74	..	..	..
Capital goods	..	..	..	..	..	..	75	56	65	..	..	..
Total Imports CIF	94.3	104.3	94.1	100.0	108.6	111.6	426	331	340	460	500	611

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	112.5	74.6	65.5	100.0	98.9	108.3
Merch. Imports Price Index	98.2	69.0	78.6	100.0	100.1	118.9
Merch. Terms of Trade	114.5	108.2	83.4	100.0	98.9	91.1

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	90	41	45	74	96	104
Merchandise (FOB)	58	22	25	47	64	69
Non-Factor Services	32	18	20	27	32	36
Imports of Goods & NFS	475	349	386	515	552	1,119
Merchandise (FOB)	424	314	340	454	486	559
Non-Factor Services	50	35	46	61	66	43
Resource Balance	-384	-308	-341	-441	-456	-498
Net Factor Income	266	233	257	305	322	321
(interest per DRS)	2	4	4	6	7	8
Net Current Transfers	2	2	2	0	4	3
(workers' remittances)	..	..	0	..	..	..
Curr. A/C Bal. before Off. Transf.	-117	-74	-82	-135	-130	-174
Net Official Transfers	106	74	65	68	57	137
Curr. A/C Bal. after Off. Transf.	-11	0	-17	-67	-73	-37
Long-Term Capital Inflow	34	30	17	40	52	39
Direct Investment	4	5	2	6	21	13
Net LT Loans (DRS data)	10	28	15	38	36	75
Other LT Inflow (Net)	20	-3	0	-3	-4	-49
Total Other Items (net)	20	-26	11	26	12	-9
Net Short Term Capital	32	-11	14	6	-4	-3
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-11	-14	-2	20	15	-6
Changes in Net Reserves	-43	-5	-12	0	9	7
Net Credit from the IMF	..	0	0	0	4	..
Other Reserves Changes	-43	-5	-12	0	5	7
As Share of GDP:						
Resource Balance	-104.6	-124.1	-124.9	-123.6	-106.2	-109.2
Interest Payments	0.4	1.7	1.6	1.6	1.6	1.8
Current Account Balance	-31.8	-29.6	-30.0	-38.0	-30.2	-38.1
Memorandum Items:						
Reserves excl. Gold (mil. US$)	50	44	60	68	56	49
Reserves incl. Gold (mil. US$)	50	44	60	68	56	49
Official X-Rate (LCUs/US$)	0.78	2.23	2.29	2.04	2.27	2.62
Index Real Eff. X-R Base 1980	100.00	97.09	95.05	92.26	91.79	..
GDP (millions of current US$)	368	249	273	357	429	456

I. Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	28.3	58.1	42.5	38.0	36.2	39.9	..	11.2	9.2	23.1	..
Current Expenditures	26.2	39.5	42.7	38.5	37.7	33.0	..	23.9	9.8	26.8	..
Current Budget Balance	2.1	18.6	-0.2	-0.5	-1.5	6.9	..	..	94.0	345.7	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	15.7	23.4	22.8	27.9	25.8	22.3	..	12.2	48.8	19.4	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-15.6	-19.1	-23.1	-28.4	-27.3	-15.4	..	38.6	49.3	24.2	..
Official Capital Grants	5.3	7.2	9.5	8.0	9.5	9.3	..	52.1	1.6	54.3	..
External Borrowing (net)	2.8	5.3	5.7	8.9	7.0	6.1	..	22.3	91.6	1.3	..
Domestic Non-Bank Financing	0.7	1.3	-0.2	2.5	1.7	-1.2	..	..	..	-8.3	..
Domestic Bank Financing	6.8	5.3	8.2	9.0	9.0	1.1	..	75.1	34.4	29.8	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	10	28	15	38	36	75	57	164	186	248	282	306
Official Creditors	8	34	14	27	33	71	45	156	177	226	260	280
Multilateral	6	31	13	22	23	38	39	141	162	203	229	217
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	4	8	6	8	7	12	24	62	69	81	87	99
Bilateral	1	3	2	6	11	33	6	16	15	23	32	63
Private Creditors	2	-6	1	11	2	5	11	8	9	22	22	25
Suppliers	3	1	0	2	4	-2	3	7	7	10	13	11
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	10	28	15	38	36	75	57	164	186	248	282	306
IMF Credit	2	-1	-1	-1	3	5	6	4	3	2	5	10
Net Short-Term Capital	32	-11	14	6	-4	-3	8	4	4	4	6	7
Total incl. IMF & Net ST	43	16	28	43	35	78	71	172	193	254	293	323

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	42.58	37.77	36.84	32.88	30.76	32.34
3. IBRD+IDA as % of Total	42.58	37.77	36.84	32.88	30.76	32.34
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	4.08	3.39	6.87	7.14	5.33	4.58
3. IBRD+IDA as % of Total	4.08	3.39	6.87	7.14	5.33	4.58
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	15.57	57.95	59.55	62.85	65.31	65.23
2. IMF Credit/Exports	1.71	1.38	0.99	0.56	1.18	2.16
3. Short-Term Debt/Exports	2.20	1.41	1.28	1.02	1.39	1.47
4. LT+IMF+ST DOD/Exports	19.48	60.75	61.83	64.42	67.88	68.86
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	15.40	65.93	68.19	69.42	65.78	67.05
2. IMF Credit/GDP	1.69	1.57	1.14	0.62	1.19	2.22
3. Short-Term Debt/GDP	2.18	1.61	1.46	1.12	1.40	1.51
4. LT+IMF+ST DOD/GDP	19.26	69.11	70.79	71.16	68.36	70.79
Debt Service /Exports						
1. Public & Guaranteed LT	1.35	6.26	4.19	3.55	5.21	5.59
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	1.35	6.26	4.19	3.55	5.21	5.59
4. IMF Repurchases+Serv. Chgs.		0.28	0.35	0.33	0.25	0.15
5. Interest only on ST Debt	0.17	0.11	0.10	0.08	0.09	0.11
6. Total (LT+IMF+ST Int.)	1.51	6.65	4.64	3.96	5.55	5.85

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Madagascar

With a population of about 11 million growing at three percent per year and a per capita income of about US$250 in 1988, Madagascar is one of the poorest countries in the world. It is the world's fourth largest island, with a rugged topography, wide variations in soils and climate, varied mineral endowment, and an unique flora and fauna. Rice is the country's main staple, and the major exports are coffee, vanilla, cloves and shellfish. Its economic record is one of modest growth from independence in 1960 to 1970, stagnation from 1970 to 1980, sharp deterioration between 1980 and 1982, and financial stabilization with limited economic growth from 1983 through early 1987. Developments since 1988 are, however, encouraging.

The disappointing economic performance of the 1970s stemmed largely from inappropriate economic policies, which emphasized a much increased public sector role, with industrialization as the central objective, agriculture in a supporting role, nationalization of enterprises, extensive consumer subsidies, and pervasive controls on private economic activity. Nevertheless, cautious financial policies led to low fiscal deficits; the balance of payments remained in approximate equilibrium; and the debt service ratio was kept at only 4 percent.

Between 1978 and 1980, however, the government embarked on a policy of "all-out" public investment, which was insufficiently coordinated, with several economically nonviable large projects, and financed largely by external borrowing on commercial terms. This policy combined with declining terms of trade and stagnant domestic revenues to produce a fiscal deficit of about 15 percent of GDP, an inflation rate of 30 percent, an 11 percent decline in real GDP from 1980 to 1982, and a large increase in the external debt burden, that still severely constrains economic growth.

Economic Developments and Adjustment Policies

The government's efforts at financial stabilization began in 1981 and were reinforced from 1982 onwards. Policy adjustment from 1981 to 1986 was centered largely on demand management. During this period, the government deficit was reduced significantly in real terms, mainly through a reduction of expenditure. Also, the lower deficit was financed increasingly by foreign loans on concessional terms, and annual inflation dropped from about 30 percent to about 15 percent. On the external side, the current account deficit was cut almost in half from its level of about US$635 million in 1980. With exports stagnating and scheduled external interest payments almost doubling, the brunt of the adjustment fell on imports, which dropped by over 50 percent in real terms. However, the decline in real GDP was arrested, and slight economic growth took place, at an average of 1.5 percent, between 1983 and 1987. In 1988, for the first time in almost a generation, GDP growth per capita turned positive.

In 1985, with the task of financial stabilization largely achieved, the government turned its attention to restructuring the economy through supply-oriented measures, focusing in turn on each of the major economic sectors. In industry, the government eliminated that year most ex-factory price controls, reduced controls on profit margins, eliminated export taxes on manufactured products, and promulgated a new investment code. In agriculture, building on earlier institutional improvements in the important rice sector, the government moved in 1986 beyond adjustments in administered producer prices to a thorough liberalization of the rice pricing and marketing regime. Partly as a result of these reforms and helped by good weather, the country has moved in two years from a position of heavy import dependence to a point where it may again become a net exporter of rice in years of favorable weather.

In addition, the government moved in 1987 and 1988, decisively and on a broad front, to establish a market-determined trade and foreign exchange allocation regime. The actions taken included: (a) large devaluations in May-June 1987, totaling 46 percent in foreign currency terms; (b) the elimination in January

1988 of quantitative import restrictions for protective purposes and establishment of a simplified tariff structure; and (c) implementation in July 1988 of a market-determined allocation of foreign exchange for imports.

In 1989, the government pursued its economic liberalization program. As part of this effort, a new investment code and free-trade-zone legislation were promulgated in December; the budgetary reinforcement process has continued, including the preparation of the rolling triennial public investment program; and public enterprise reform is progressing, albeit more slowly and with greater difficulty than envisaged. In the financial sector, the portfolios of the three state-owned banks have been fully cleaned up of all nonperforming assets and of most doubtful assets. One of these three banks is being reorganized and privatized, a second bank has obtained minority private participation, and a fully private new bank has been established. Finally, intervention in the social and environmental field is being intensified and integrated in the government budget. In 1990 and beyond, the structural adjustment program is expected to be consolidated further, the effort in capacity building is continuing, and the Bank is encouraging the combination of a national conservation strategy with a more active policy to reduce the population growth.

In general, economic recovery, though still fragile, is well under way. The supply response, which was initially disappointing, is now encouraging. As noted, the first indication of positive per capita growth in almost a generation was recorded in 1988. In 1989, GDP growth is estimated about 4.9 percent, a result of good performance in the agricultural sector, strong growth in trade and tourism-related services, and dynamic informal economic activities. Inflation decelerated from an annual average of 26 percent in 1988 (largely the result of the previous year's devaluation) to an estimated 9 percent in 1989. (However, in the first quarter of 1990 prices have risen at an annual rate of about 13 percent—a development to be closely monitored.) As a result of the liberalization of foreign exchange allocation, and after eight consecutive years of decline, imports increased in 1989, though modestly. Export volume registered a very substantial increase (32 percent). However, with the sharp decreases in export prices, in particular that of coffee, the improvement in the current account deficit was modest. Aided also by the strong performance of tourism, both the current account and the overall balance-of-payments deficits were lower than forecast. Combined with generous rescheduling and debt cancellation, this has permitted a substantial reduction in external arrears, as well as a slight increase in gross reserves.

Government Strategy

The government is cognizant of the need for a global economic policy perspective to pursue the adjustment program. The overall objective of its current policy framework is to preserve the progress achieved in financial stabilization and, building on the recent economic turnaround, further consolidate the transition to sustained per capita growth with increased social equity. To this end, the government's strategy aims at: (i) further improving the incentives for private investment and exports, particularly by the removing the remaining administrative and regulatory barriers to a more competitive economic environment, and by gradually liberalizing external service payments, including dividends; (ii) continuing to strengthen public expenditure formulation, and monitoring the execution of the public investment program; (iii) continuing the rationalization of the public enterprise sector, including dissolution or privatization of an additional number of enterprises; (iv) progressively reinforcing the functions and resources of decentralized administrative entities; and (v) taçkling more directly social and environmental issues, including health, education and family planning, in order to deepen investment in human capital, which will also require an internal reallocation of public resources.

In order to encourage the reallocation of private resources to more efficient activities—particularly exports and efficient import-substitution—the government will focus on removing impediments to greater factor mobility and to access to inputs and services, still imbedded in the current labor, property, commercial, and transport legislation. At the same time, the government will deepen its activities in the social aspects of development, in order to address the consequences of the prolonged economic decline, help meet more effectively the social objectives of development and, where needed, cushion the impact of adjustment measures on specific groups. Finally, to arrest the deterioration of Madagascar's unique environment, the government will implement the first phase of the Environmental Action Plan in 1990.

Constraints and Prospects

Madagascar has a significant long-term economic potential, stemming from an industrious labor force and a variety of natural resources. Titanium is a major prospect, and export earnings from it could reach US$35 million-40 million a year by the mid-1990s. Other promising possibilities for substantial expansion of non-traditional exports exist, particularly in the fishing and cotton textiles subsectors. Also, given an appropriate economic climate, there is a potential for significant direct foreign investment and for tourism expansion. As noted, however, the country's environment is severely threatened, and appropriate policies are needed.

The government had set a GDP growth target that will permit per capita income to rise. Achieving this objective will require relieving both the resource constraints and the policy constraints. Under current circumstances, prospects are good in both areas. Taking into account the imports needed to realize the above growth objective and other balance of payments items (especially the extremely high scheduled debt service), about one-third of gross external financing requirements in 1990-92 can be financed by loan disbursements from existing commitments. In addition to the loan disbursements and grants from expected new commitments, there are good prospects for mobilizing the quick-disbursing and other external assistance to cover the financing requirements and achieve a substantial recovery of imports. However, it will be essential to assure that the higher imports are channelled to efficient uses through appropriate domestic policy, including the maintenance of a realistic exchange rate and the pursuit of the on-going economic liberalization.

Madagascar's import capacity has been severely limited by its vulnerability to changes in external conditions, particularly to world market prices for its major exports, and to its debt service burden. In 1989, and for the third consecutive year, the average export price of coffee declined, contributing strongly to the deterioration in the terms of trade of the country. A major objective of the stabilization effort was the reduction in external arrears and the orderly servicing of external debt. Debt rescheduling by the Paris and London Clubs has helped to achieve that objective, and Madagascar has been meeting its debt service obligations on a timely basis. In recent years, however, charges on previously-rescheduled debt have begun to weigh more heavily in the country's debt profile. In 1989, the ratio of debt outstanding and disbursed (DOD) to GDP was 146 percent. Scheduled interest and amortization were equivalent to about 105 percent of exports of goods and non-factor services that year. Even after rescheduling, debt service payments actually effected have absorbed about 51 percent of total earnings from exports of goods and services. However, the substantial debt cancellations announced in 1989 will alleviate this heavy burden in the future. France, Canada, Germany, and the United States cancelled, in total, over half a billion dollar equivalent of their debt. Of this, about three-fourth was from France.

The above cancellations produce about US$63 million reduction a year in debt service. Even though these debt cancellations do not lead to further balance-of-payments relief (they would have been rescheduled, in any event) there is a significant impact on the government budget. Following the practice of servicing debt in local currency on the original maturity schedule, there is a substantial gain from write-off as compared to rescheduling. This budgetary gain allows the government to provide additional funding of essential public services, improve provision for recurrent cost of investment, clean-up domestic arrears, and accelerate the net repayment of domestic debt. In addition, the government also negotiated a new agreement in April 1990 with London Club creditors, involving the rescheduling of US$105 million. The restructuring, however, covered only 50 percent of the principal due in 1989-93, with a maturity of nine years, including a grace period of 3.5 years.

MADAGASCAR

Mid-1988 Population (milions)	11
1988 Per Capita GNP in US$:	250

	A. Shares of Gross Domestic Product (from current price data) a/						B. Growth Rates(% per annum) (from constant price data)a/				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	3.5	1.2	0.3	3.8	4.9
Net Indirect Taxes	9.6	10.8	11.2	12.6	11.1	10.1	..	..	..	..	..
Agriculture	..	23.9	26.7	29.3	29.3	28.2	..	-0.4	2.2	2.4	5.5
Industry	..	16.0	14.3	12.6	12.7	13.0	..	1.6	0.0	1.3	1.5
(of which Manufacturing)	..	..	..	11.2	11.0	11.4	..	..	..	-0.1	1.2
Services	..	49.3	47.8	45.6	47.0	48.7	..	1.8	-0.6	5.4	5.5
Resource Balance	-6.8	-4.6	-16.4	-4.6	-6.5	-5.2	..	..	..	..	..
Exports of GNFS	13.2	14.2	13.3	16.4	15.9	17.3	-1.4	1.9	-2.2	-5.0	23.8
Imports of GNFS	20.0	18.9	29.7	21.0	22.4	22.5	0.6	2.7	-6.0	-0.9	2.8
Total Expenditures	106.8	104.6	116.4	104.6	106.5	105.2	3.4	1.6	-0.9	4.3	1.8
Total Consumption	100.3	95.5	101.4	94.6	93.5	92.0	3.4	1.4	-0.8	3.4	1.3
Private Consumption	84.3	83.3	89.3	85.6	85.6	84.0	3.3	1.1	-0.9	4.2	0.6
General Government	16.0	12.2	12.1	9.0	7.9	8.1	3.3	4.3	0.2	-4.2	8.2
Gross Domestic Investment	6.5	9.1	15.0	10.0	13.0	13.2	4.2	3.2	-1.4	12.5	6.5
Fixed Investment	..	8.4	14.4	..	..	..	..	..	..	..	..
Changes in Stocks	..	0.7	0.6	..	..	..	..	..	..	..	..
Gross Domestic Saving	-0.3	4.5	-1.4	5.4	6.5	8.0	..	..	..	-3.2	35.7
Net Factor Income	-3.3	-1.8	-1.1	-6.7	-6.7	-7.8	..	..	..	..	..
Net Current Transfers	0.0	-1.4	-0.5	2.0	2.4	2.8	..	..	..	..	..
Gross National Saving	-3.6	1.3	-3.1	0.7	2.2	3.0	..	..	..	14.2	138.6

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	2,113	2,652	2,935	2,770	2,876	3,017	3.5	1.2	0.3	3.8	4.9
Capacity to Import	640	746	516	453	409	456	1.4	-4.7	0.0	-9.8	11.5
Terms of Trade Adjustment	126	253	-69	0	-22	-77	..	..	..	..	..
Gross Domestic Income	2,239	2,905	2,867	2,770	2,854	2,940	3.9	-0.2	0.7	3.0	3.0
Gross National Product	2,038	2,601	2,903	2,583	2,685	2,788	3.7	1.4	-0.4	3.9	3.8
Gross National Income	2,164	2,855	2,834	2,583	2,663	2,711	4.1	-0.1	0.0	3.1	1.8

C. Price Indices	*1980*	*1985*	(*1987 = 100*) *1986*	*1987*	*1988*	*1989*	Inflation Rates (% p.a.) *1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	30.5	76.0	87.0	100.0	126.6	138.0	3.4	9.0	17.4	26.6	9.0
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	29.1	71.3	81.4	100.0	122.4	134.9	4.0	9.9	18.2	22.4	10.2
Implicit Expenditures Defl.	28.4	69.3	77.2	100.0	124.1	139.2	4.0	11.3	18.4	24.1	12.2

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.3	2.7	3.3
Labor Force	..	..	..
Gross Natl. Income p.c.	1.7	-2.7	-3.2
Private Consumption p.c.	1.0	-1.5	-4.1
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.2	2.2	-18.3
Marginal Savings Rates:			
Gross National Saving	19.4	-1742.5	-61.0
Gross Domestic Saving	22.6	1552.6	-240.3
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	85.1	82.8	80.9	..
Industry	4.3	5.2	6.0	..
Services	10.5	12.0	13.2	..
Total	100.0	100.0	100.0	100.0

The Government is currently revising the national accounts from 1984 onward. They are expected to be finalized sometime in summer 1990. The present estimates are based on the Government preliminary data and the findings of a mission in November 1989.

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
Coffee	134.2	86.3	98.1	100.0	91.0	129.7	214	104	148	98	76	76
Cloves	61.7	163.1	159.0	100.0	181.5	544.5	51	36	36	10	16	32
Vanilla	35.5	54.5	70.1	100.0	49.8	51.6	19	44	50	80	45	42
Other exports	..	..	..	..	..	..	153	98	95	123	143	163
Total Exports FOB	85.5	90.1	95.3	100.0	89.7	118.1	437	282	329	311	280	313
F. Merchandise Imports												
Food	95.8	115.1	108.2	100.0	31.4	76.1	39	50	52	49	17	39
Fuel and energy	78.1	105.6	121.5	100.0	131.7	101.8	70	85	59	55	66	51
Other Consumer Goods	215.1	114.0	108.6	100.0	95.7	106.0	85	52	56	59	60	65
Other Intermed. Goods	315.5	98.7	97.2	100.0	80.8	76.0	228	109	119	114	98	91
Capital goods	219.3	128.5	119.7	100.0	123.9	120.8	176	99	109	105	138	135
Total Imports CIF	257.1	109.0	106.9	100.0	96.1	96.9	598	395	395	382	379	381

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	164.5	100.7	111.0	100.0	92.1	81.7
Merch. Imports Price Index	60.9	94.9	96.7	100.0	99.6	104.0
Merch. Terms of Trade	270.3	106.2	114.9	100.0	92.6	78.7

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	515	337	405	407	398	440
Merchandise (FOB)	437	279	330	310	280	313
Non-Factor Services	79	59	75	97	118	127
Imports of Goods & NFS	1,085	502	537	544	561	572
Merchandise (FOB)	764	334	331	315	312	314
Non-Factor Services	320	167	206	229	249	258
Resource Balance	-569	-164	-133	-137	-163	-132
Net Factor Income	-45	-129	-155	-174	-167	-198
(interest per DRS)	27	52	59	102	81	85
Net Current Transfers	-21	32	34	53	59	71
(workers' remittances)	..	5	4	4	19	..
Curr. A/C Bal. before Off. Transf.	-635	-262	-253	-258	-271	-259
Net Official Transfers	67	67	118	102	136	131
Curr. A/C Bal. after Off. Transf.	-568	-195	-135	-156	-136	-128
Long-Term Capital Inflow	356	152	229	248	209	212
Direct Investment	..	..	..	..	..	..
Net LT Loans (DRS data)	345	120	152	246	150	150
Other LT Inflow (Net)	11	33	77	2	59	62
Total Other Items (net)	295	19	-39	-17	-4	-51
Net Short Term Capital	310	-1	-31	-50	-20	-33
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-15	19	-8	34	16	-18
Changes in Net Reserves	-83	24	-55	-75	-69	-33
Net Credit from the IMF	42	13	23	10	-29	-16
Other Reserves Changes	-125	10	-77	-85	-40	-17
As Share of GDP:						
Resource Balance	-14.1	-5.7	-4.0	-5.3	-6.5	-5.2
Interest Payments	0.7	1.8	1.8	3.9	3.2	3.3
Current Account Balance	-15.7	-9.0	-7.7	-10.0	-10.8	-10.2
Memorandum Items:						
Reserves excl. Gold (mil. US$)	9	48	115	185	224	231
Reserves incl. Gold (mil. US$)	9	48	115	185	224	231
Official X-Rate (LCUs/US$)	211.28	662.48	676.34	1069.21	1407.11	1603.44
Index Real Eff. X-R Base 1980	100.00	91.62	86.51	58.96	51.31	52.60
GDP (millions of current US$)	4,042	2,893	3,296	2,590	2,501	2,539

I. Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current receipts	15.1	13.1	12.6	15.2	13.5	12.5	17.4	11.4	50.0	12.6	7.3
Current expenditure	16.6	11.1	10.4	10.8	9.8	9.4	7.0	9.3	28.8	15.5	10.1
Current balance	-1.6	2.0	2.2	4.4	3.7	3.1	..	22.4	152.7	5.3	-0.3
Capital expenditure	11.3	7.0	6.3	8.3	8.7	9.2	5.8	4.6	63.3	33.4	22.5
Others	2.0	-0.1	0.1	1.0	0.3	0.7	..	..	..	..	..
Overall deficits	-14.9	-4.9	-4.2	-4.9	-5.3	-6.8	-11.1	0.2	43.7	40.6	45.1
Official capital grants	..	1.1	0.9	1.4	1.9	2.7	..	-1.9	80.4	82.0	57.7
External borrowing	5.6	2.5	2.3	3.6	3.8	4.6	-6.5	7.1	94.6	34.6	37.6
Domestic non-banking	9.2	1.1	0.8	-0.4	-0.6	-0.7	-20.0	-14.8	-160.1	102.8	33.2
Domestic banking	0.1	0.2	0.2	0.3	0.2	0.2	..	9.4	114.3	1.3	28.9

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	345	120	152	246	150	150	926	2,158	2,651	3,367	3,317	3,442
Official Creditors	216	128	169	259	162	163	580	1,818	2,300	2,987	3,006	3,140
Multilateral	46	71	128	155	117	118	187	478	634	843	921	1,040
of which IBRD	1	-1	-1	-2	-2	-3	30	28	31	36	30	27
of which IDA	25	57	93	91	79	60	122	316	422	550	607	672
Bilateral	170	57	42	104	44	45	392	1,341	1,666	2,144	2,085	2,100
Private Creditors	129	-8	-17	-13	-12	-13	346	339	351	380	312	302
Suppliers	72	12	-2	0	-5	-4	180	98	106	100	81	77
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	345	120	152	246	150	150	926	2,158	2,651	3,367	3,317	3,442
IMF Credit	68	-7	-2	3	-36	-20	87	184	203	238	190	165
Net Short-Term Capital	310	-1	-31	-50	-20	-33	244	120	156	127	95	100
Total incl. IMF & Net ST	722	112	119	198	94	97	1,257	2,462	3,009	3,733	3,602	3,707

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	3.22	1.29	1.18	1.05	0.92	0.79
2. IDA as % of Total	13.17	14.63	15.93	16.34	18.29	19.54
3. IBRD+IDA as % of Total	16.38	15.92	17.11	17.39	19.20	20.33
Share of LT Debt Service						
1. IBRD as % of Total	4.90	3.36	3.36	2.62	2.74	2.75
2. IDA as % of Total	1.92	3.16	4.41	3.97	4.17	4.28
3. IBRD+IDA as % of Total	6.82	6.52	7.77	6.59	6.90	7.04
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	178.59	623.42	639.78	800.95	771.27	751.53
2. IMF Credit/Exports	16.78	53.23	49.05	56.71	44.24	36.09
3. Short-Term Debt/Exports	47.08	34.73	37.56	30.28	21.99	21.83
4. LT+IMF+ST DOD/Exports	242.45	711.38	726.38	887.95	837.51	809.45
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	22.91	74.59	80.43	130.00	132.63	135.57
2. IMF Credit/GDP	2.15	6.36	6.16	9.19	7.60	6.50
3. Short-Term Debt/GDP	6.04	4.15	4.73	4.90	3.80	3.94
4. LT+IMF+ST DOD/GDP	31.10	85.10	91.29	144.13	144.02	146.00
Debt Services/Exports						
1. Public & Guaranteed LT	11.03	28.73	25.41	35.69	39.12	35.68
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	11.03	28.73	25.41	35.69	39.12	35.68
4. IMF Repurchases+Serv. Chrgs.	0.68	14.23	16.34	13.00	14.33	14.17
5. Interest only on ST Debt	5.50	2.08	1.39	0.84	0.29	1.09
6. Total (LT+IMF+ST Int.)	17.21	45.04	43.14	49.53	53.75	50.94

Malawi

Malawi is characterized by effective and pragmatic management of its economy. However, that economy is fragile and has a narrow resource base. Malawi is landlocked; land density already is among the highest in Africa; its population continues to grow at relatively high rates; human resources are largely undeveloped; and the economic base is dependent on a small range of export and domestic markets.

Economic Structure and Recent Developments

The strategy in the first decades following Independence in 1964 by and large emphasized agriculture and infrastructure. The economy grew at rates of about 5.7 percent per annum during the 1970s. In agriculture, the strategy emphasized increased production. Direct public expenditures in agriculture were concentrated on the smallholder sub-sector. Prices paid to smallholders by the monopsonistic marketing board (most recently the Agricultural Development and Marketing Corporation (ADMARC)) were considerably less than world levels, but a considerable share of the profits were reinvested in agriculture, albeit, the estate or agro-industry sub-sectors. The estate sub-sector, which relied on three commodities (tobacco, tea, sugar), was deemed critical to export performance. Explicitly recognizing its constrained resources, the government limited expenditures on social services.

Malawi's period of strong economic growth, driven primarily by extensive growth in the estate agricultural sector, came to a halt in the early 1980s. At that time, dramatic declines in the terms of trade, combined with a drought and the beginning of transport difficulties through Mozambique led to sharp declines in GDP per capita in 1980 and 1981. Economic growth was restored in the years 1982 to 1984 in response to initial adjustment efforts, but the recovery was temporary. Further external shocks buffeted the economy. Foremost amongst these has been the war and civil strife in neighboring Mozambique which not only led to a complete closure of rail links and a severely debilitating increase in international transportation costs but also to increased security-related expenditures and a large influx of refugees. These shocks led to two successive years of crisis management in 1986 and 1987, years of falling per capita GDP as Malawi struggled to adjust further to these additional external pressures. From 1980 to 1987, real GDP grew only 1.8 percent per year compared with population growth of 3.3 percent. Improvements in the output in the smallholder sector and resumption of imports of intermediates and capital goods led to broadly based increases in output, estimated at 2.8 percent in 1988 and 5.0 percent in 1989.

One aspect of the continuing economic crisis in Malawi is the continuing pressure on the external accounts brought about largely by terms of trade deterioration and increasing transport costs. After a strong year in 1984, due largely to a temporary increase in the price of tea and a surge in the volume of tobacco exports, the current account deficit rose to 9.0 percent of GDP in 1985. Gross reserves in 1986 fell to less than a month's imports. In response to the pressures, the Malawian authorities imposed a strict system of foreign exchange allocation that reduced the current account deficit in 1986 and 1987 by sharply containing import growth. The introduction of a phased import liberalization program in 1988-89, along with increased capital inflows associated with Bank adjustment lending and higher tobacco prices, allowed a recovery surge in imports as well as a restoration of gross reserves, with a current account deficit of 8.7 percent of GDP in 1988 and 10.7 percent in 1989. Even after this import surge, the ratio of imports of goods to GDP in 1989 is only 70 percent of its 1980 level. Balance of payments pressures are reflected in a 14 percent real depreciation of the Malawi kwacha from 1980 to 1988. In line with its flexible exchange rate policy to maintain competitiveness, the Malawian authorities devalued the kwacha against a trade-weighted basket of currencies seven times during 1984-88, including a 15 percent devaluation in January 1988 and a 7 percent devaluation in March 1990.

After uneven performance in the 1980s, fiscal discipline was restored in 1988/89. The overall deficit (excluding grants) declined from its FY80[1] peak of 16 percent of GDP to 8.0 percent in FY85 mainly due to declines in development expenditures. The deficit worsened again in FY86 to 13 percent of GDP due to large extra-budgetary expenditures associated with maize purchases from ADMARC and increased expenditures due to the security situation. These large fiscal imbalances pressured domestic savings, as net domestic financing was equivalent 4.5 percent of GDP in FY86. The introduction of improved cost control measures and improved revenue performance led to a gradual reduction of the fiscal deficit to about 6.6 percent of GDP in both FY88 and FY89. These lower deficits, combined with large inflows of concessional grants and loans, allowed the government to reduce significantly its indebtedness to the domestic banking system.

During the recent adjustment period, inflation accelerated sharply before decelerating in 1989. Inflation increased from an average of 14 percent from 1980-87 to 31 percent in 1988. The rapid price increases appear to have been driven by (i) excess demand pressure on the limited domestic production and (ii) pass-through of the local currency increases in imported intermediates. Also, the transport sector has been under price pressure, both from limited supply of imported spares as well as the demand pressure from supplies to refugees. However, inflation has begun a sharp deceleration in 1989 with twelve month inflation of 9.2 percent to January 1990.

Wage increases since 1984 have been sluggish, with a fall in the real consumption wage of 14 percent by 1987. This trend of declining real average earnings has been a persistent feature of the labor market in Malawi for a decade for both the agricultural and non-agricultural sectors. However, after remaining unchanged since August 1986, the nominal minimum wage was raised in May 1989 by 126 percent in the rural areas, 98 percent in the large cities, and 107 percent in municipalities, restoring its real level to roughly that of 1980-84.

In response to the external shocks facing the economy, government strategy in the 1980s was formulated to strengthen the performance of key markets. The policies, embraced and implemented by the Malawians supported by the World Bank and other international institutions, included liberalizing smallholder marketing, restructuring of major private and public enterprises, strengthening fiscal institutions and performance, and restoring a relatively open trade and exchange regime.

Malawi's Development Strategy

In early 1988 the government published its Statement of Development Policies, 1987-1996. (DEVPOL) In this document the government has set out as its economic and social objectives for the next decade, "the reduction of poverty, ignorance and disease by the achievement of rapid and sustained economic growth; an improvement in income distribution; and a reduction in the instability of welfare for both the individual and the nation." Furthermore, DEVPOL states that the agricultural sector will need to take the lead and economic growth will come from the processing of natural resources, the development of export manufacturing, the expansion in the number of small-scale enterprises, and the further exploitation of import substitution opportunities. Government policy is to place even greater emphasis on private sector initiatives with a "general movement in the public sector away from regulation and control of enterprise to promotion and support." Government will also provide improved infrastructure to support the private sector, with a key responsibility the provision of reliable, low-cost transport links. Institutional strengthening will also be a vital part of the government's strategy, with an emphasis on agricultural research and extension. A final area of emphasis will be the provision of skilled manpower and the minimization of financial constraints. Here the government will strengthen production of the appropriate types of skilled manpower and allow the employment of expatriates where necessary. Fiscal and monetary policy will be set so as to ensure that the private sector has access to the volume of resources it needs on reasonable terms.

Another key aspect of the country's strategy will be to reduce poverty. Policies will be implemented to broaden access to social and economic services to more of the population. There will be increased places for primary school students and larger enrollment in the Malawi College of Distance Education, priority given to stimulating smallholder agricultural production and small scale industry and rising expenditures on basic social services, especially primary health care, rural water supply and low cost housing. Emphasis will be placed on helping the poorest elements in society and encouraging development outside the main urban areas. Smallholder agriculture will be supported by improved research and extension efforts, especially for food-deficit farmers. Improved food security and opening up of new transport routes are seen as key elements in reducing the insecurity and instability in the economy.

1. Fiscal year begins April 1 of specified year.

Development Financing

Given Malawi's stage of development, foreign capital inflows, particularly of a concessional nature, will continue to play an important role in development financing. Foreign savings increased significantly in 1988 and 1989, both multilateral assistance led by World Bank Group credits and bilateral grants. While domestic savings are projected to increase faster than GDP, external assistance will remain an important source of finance, covering about half of projected investment levels.

After heavy recourse to commercial borrowing in the late seventies and early eighties that substantially increased the debt servicing burden, the government of Malawi has effectively eliminated borrowing on commercial terms. The amount of outstanding debt on concessional terms has increased from 46 percent in 1980 to 72 percent in 1989. Total debt service obligations in 1985-89 were 8.7 percent of GDP, but are projected to decline as the increasing share of official grants reduces interest and repayment obligations. During the period of 1989-1991 the debt service ratio will fall from 38 percent of exports to 24 percent. Malawi negotiated Paris Club and London Club rescheduling agreements in April 1988 covering some US$61 million. This debt relief, along with the large adjustment related disbursements in 1988, allowed regularization of debt service, elimination of import payments arrears that had accumulated in 1986 and 1987 and the resumption of commercial lines of credit.

MALAWI

Mid-1988 Population (mils.)	8
1988 Per Capita GNP in US$:	160

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.7	5.8	2.5	2.8	5.2
Net Indirect Taxes	4.0	6.4	10.3	9.8	9.7	9.3	..	..	..	..	..
Agriculture	48.0	38.9	33.3	32.8	32.3	31.5	4.1	4.8	2.3	1.9	1.2
Industry	12.8	15.7	17.2	16.2	16.9	18.2	6.4	5.8	1.8	7.0	12.5
(of which Manufacturing)	..	..	10.4	11.1	11.1	12.0	..	2.6	2.8	3.7	12.6
Services	35.3	39.0	39.1	41.2	41.0	40.9	6.0	5.4	3.3	2.8	3.4
Resource Balance	-13.8	-9.9	-13.9	-2.2	-9.1	-12.9	..	..	..	..	..
Exports of GNFS	19.5	27.6	24.9	24.2	23.0	20.3	8.9	2.1	3.3	2.1	-4.1
Imports of GNFS	33.3	37.6	38.8	26.4	32.1	33.2	9.4	0.6	-3.4	20.5	14.4
Total Expenditures	113.8	109.9	113.9	102.2	109.1	112.9	6.8	4.2	0.5	7.5	9.9
Total Consumption	99.8	87.6	89.3	87.6	91.2	94.4	3.9	4.6	2.1	4.3	10.7
Private Consumption	84.0	74.2	70.0	69.8	76.7	79.7	4.4	3.5	1.6	6.2	12.4
General Government	15.8	13.4	19.3	17.8	14.5	14.7	3.0	10.8	4.2	-3.0	3.6
Gross Domestic Investment	14.0	22.4	24.8	14.6	17.9	18.5	16.0	3.2	-6.4	26.4	6.0
Fixed Investment	..	20.4	22.2	12.8	14.6	15.3	..	4.2	-6.1	14.8	7.9
Changes in Stocks	..	2.0	2.5	1.8	3.3	3.1	..	..	..	..	..
Gross Domestic Saving	0.2	12.4	10.8	12.4	8.8	5.6	72.0	0.2	-3.7	-23.8	-42.3
Net Factor Income	-2.6	0.2	-8.1	-4.5	-3.9	-3.5	..	..	..	..	..
Net Current Transfers	0.0	0.5	1.1	1.1	1.1	5.7	..	..	..	..	..
Gross National Saving	-2.4	13.1	3.9	9.0	6.0	6.6	..	-11.5	2.9	-26.8	20.0
In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	1,045	1,679	2,432	2,748	2,824	2,970	5.7	5.8	2.5	2.8	5.2
Capacity to Import	319	801	755	665	626	612	11.3	-2.2	-1.4	-5.8	-2.3
Terms of Trade Adjustment	110	320	114	0	-53	-39	..	..	..	..	..
Gross Domestic Income	1,155	1,999	2,546	2,748	2,771	2,930	6.9	3.9	1.3	0.8	5.7
Gross National Product	1,005	1,684	2,189	2,623	2,714	2,867	6.3	4.2	3.3	3.5	5.6
Gross National Income	1,115	2,003	2,303	2,623	2,661	2,828	7.5	2.5	2.0	1.5	6.3

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	37.9	70.1	79.9	100.0	133.9	..	..	..	16.2	33.9	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	41.3	72.2	81.6	100.0	126.8	150.1	4.4	8.6	13.8	26.8	18.4
Implicit Expenditures Defl.	38.6	68.1	80.7	100.0	129.4	151.6	3.1	10.9	15.4	29.4	17.2

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.8	3.0	3.8
Labor Force	..	..	..
Gross Natl. Income p.c.	4.6	-0.5	-1.7
Private Consumption p.c.	1.6	0.5	-2.1
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.6	0.1	-1.4
Marginal Savings Rates:			
Gross National Saving	35.7	-48.8	20.5
Gross Domestic Saving	31.5	5.0	-12.9
ICOR (period averages):	..	..	11.3

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	92.0	88.3	83.3	..
Industry	3.2	4.9	7.4	..
Services	4.8	6.7	9.3	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.OAGRI.TOBACCO	98.2	97.4	95.8	100.0	98.7	104.6	124	108	131	169	185	206
X.FOOD.SUGAR	99.3	97.4	102.4	100.0	105.7	104.3	43	30	21	29	27	36
X.BEV.TEA	93.6	111.8	120.4	100.0	110.4	124.4	37	53	37	28	31	37
X.OAGRI	..	..	..	..	..	..	32	32	36	27	24	20
Manufactures	..	..	..	..	..	..	..	9	8	12	9	16
Residual	..	..	..	..	..	..	29	7	8	8	14	15
Total Exports FOB	89.8	94.9	97.1	100.0	97.4	101.7	265	239	241	273	290	330
F. Merchandise Imports												
Food	..	..	..	..	..	..	42	31	29	26	33	4
Fuel and energy	..	..	..	..	..	..	62	34	32	40	48	51
Other Consumer Goods	..	..	..	..	..	..	15	11	11	9	15	62
Other Intermed. Goods	..	..	..	..	..	..	221	159	135	151	235	225
Capital goods	..	..	..	..	..	..	100	59	50	70	91	124
Total Imports CIF	150.6	118.8	98.6	100.0	127.0	139.9	440	294	257	296	422	467

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	108.2	92.3	91.1	100.0	109.0	114.3
Merch. Imports Price Index	98.7	83.8	88.0	100.0	112.2	115.3
Merch. Terms of Trade	109.6	110.2	103.5	100.0	97.1	99.1

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	313	279	272	319	325	328
Merchandise (FOB)	281	246	248	278	297	301
Non-Factor Services	32	33	24	40	28	27
Imports of Goods & NFS	491	328	296	318	438	536
Merchandise (FOB)	308	177	154	178	253	249
Non-Factor Services	183	152	143	140	185	287
Resource Balance	-179	-50	-24	1	-113	-208
Net Factor Income	-149	-114	-111	-90	-36	-56
(interest per DRS)	34	30	36	28	29	29
Net Current Transfers	13	11	13	14	15	92
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-315	-153	-122	-74	-134	-172
Net Official Transfers	50	25	30	30	81	55
Curr. A/C Bal. after Off. Transf.	-264	-128	-93	-44	-53	-117
Long-Term Capital Inflow	181	6	38	93	172	63
Direct Investment	9	1	..	0	..	..
Net LT Loans (DRS data)	120	22	76	71	90	97
Other LT Inflow (Net)	51	-17	-38	21	82	-34
Total Other Items (net)	67	101	55	16	-7	12
Net Short Term Capital	-24	-6	10	3	11	47
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	91	107	44	13	-18	-35
Changes in Net Reserves	17	21	1	-64	-111	42
Net Credit from the IMF	26	21	-10	-14	-15	-1
Other Reserves Changes	-9	-1	11	-51	-96	43
As Share of GDP:						
Resource Balance	-14.4	-4.4	-2.1	0.1	-8.1	-12.9
Interest Payments	2.8	2.6	3.1	2.2	2.1	1.8
Current Account Balance	-25.4	-13.5	-10.4	-6.0	-9.6	-10.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	68	45	25	52	146	100
Reserves incl. Gold (mil. US$)	76	49	30	58	151	105
Official X-Rate (LCUs/US$)	0.81	1.72	1.86	2.21	2.56	2.76
Index Real Eff. X-R Base 1980	100.00	96.87	86.98	80.88	85.65	90.37
GDP (millions of current US$)	1,238	1,135	1,179	1,245	1,398	1,615

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	20.8	20.0	22.0	21.1	19.7	20.8	11.2	1.3	1.1	1.2	1.4
Current Expenditures	17.4	20.6	21.2	24.0	21.6	19.3	16.6	1.2	1.3	1.1	1.2
Current Budget Balance	3.4	-0.6	0.8	-2.9	-1.9	1.5	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	14.2	7.8	8.0	8.1	7.0	7.3	2.8	1.2	1.2	1.1	1.3
Adjustments	2.4	..	1.3	2.0	0.4	0.9	..	..	1.8	-0.8	3.3
Overall Deficit	-13.2		-8.4	-13.0	-9.2	-6.7	5.3	1.1	1.8	-0.1	-0.1
Official Capital Grants	3.8	2.3	2.3	3.4	2.5	5.5	-0.7	1.2	1.7	0.0	2.7
External Borrowing (net)	7.9	3.0	3.7	4.9	2.7	3.1	7.6	1.4	1.6	0.7	1.5
Domestic Non-Bank Financing	..	..	..	..	..	0.3	..	..	..	..	..
Domestic Bank Financing	1.5	3.2	2.4	4.7	4.0	-1.6	7.0	-0.1	2.3	1.1	-1.5

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	120	22	76	71	86	97	625	792	943	1,154	1,190	1,235
Official Creditors	100	54	108	82	90	100	433	699	879	1,097	1,141	1,184
Multilateral	48	44	86	81	87	96	219	505	638	804	854	886
of which IBRD	8	-1	3	2	2	-4	26	69	85	104	99	91
of which IDA	14	33	80	45	63	77	131	322	422	509	555	628
Bilateral	52	10	23	1	4	4	214	194	242	293	287	298
Private Creditors	20	-32	-33	-11	-4	-3	192	93	63	57	49	51
Suppliers	3	-1	-2	-2	-2	-2	19	9	8	8	3	4
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	3	0	0	0	0	0	3	4
Total LT	120	22	76	71	90	97	625	792	943	1,154	1,193	1,239
IMF Credit	36	5	-28	-35	-5	-3	80	146	133	117	106	101
Net Short-Term Capital	-24	-6	10	3	11	47	116	81	80	98	51	50
Total incl. IMF & Net ST	132	21	58	39	95	141	821	1,018	1,156	1,369	1,349	1,389

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	4.08	8.74	8.98	9.04	8.29	7.37
2. IDA as % of Total	20.88	40.68	44.71	44.15	46.55	50.69
3. IBRD+IDA as % of Total	24.96	49.42	53.70	53.19	54.85	58.06
Share of LT Debt Service						
1. IBRD as % of Total	1.92	8.88	10.07	22.71	24.41	24.71
2. IDA as % of Total	2.51	4.31	4.41	8.36	9.92	10.59
3. IBRD+IDA as % of Total	4.44	13.19	14.48	31.07	34.33	35.29
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	198.61	279.57	342.25	357.99	356.32	365.34
2. IMF Credit/Exports	25.32	51.37	48.40	36.28	31.58	29.65
3. Short-Term Debt/Exports	36.89	28.46	29.08	30.48	15.15	14.75
4. LT+IMF+ST DOD/Exports	260.82	359.41	419.73	424.74	403.05	409.73
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	50.51	69.77	79.93	92.68	85.31	..
2. IMF Credit/GDP	6.44	12.82	11.30	9.39	7.56	..
3. Short-Term Debt/GDP	9.38	7.10	6.79	7.89	3.63	..
4. LT+IMF+ST DOD/GDP	66.33	89.69	98.02	109.96	96.50	..
Debt Service /Exports						
1. Public & Guaranteed LT	21.48	27.05	37.87	19.68	17.21	17.26
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	1.76	0.29
3. Total Long-Term Debt Service	21.48	27.05	37.87	19.68	18.97	17.55
4. IMF Repurchases+Serv. Chgs.	1.02	10.06	13.87	13.50	11.26	9.79
5. Interest only on ST Debt	5.15	1.80	2.00	1.89	1.40	1.18
6. Total (LT+IMF+ST Int.)	27.64	38.91	53.73	35.07	45.14	29.71

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Malaysia

By most economic indicators, Malaysia's economic performance was outstanding in the 1970s when per capita GDP growth averaged 4.9 percent a year, somewhat higher than the 4 percent a year per capita growth achieved in the 1960s. This sustained good performance was a reflection of several factors, including the country's wealth in natural resources, especially ample reserves of cultivable land and oil and gas; an outward-oriented growth strategy; favorable developments in the world economy; good economic and financial management; and stable social and political institutions.

Three specific elements have been important. First, attention and priority have been given to agriculture, resulting in high productivity gains in the sector which cushioned it against occasional steep commodity price declines. Second, manufacturing growth has been rapid, at about 12 percent a year, in the last two decades, initially led by domestically oriented subsectors, but more recently led by export-oriented industries. Third, the economy has been kept open. Exports reached 74 percent of GNP in 1989, while imports, attracted by average nominal tariff rates of just 13 percent, have risen to 70 percent of GNP. Furthermore, the increasing export-orientation of the economy has been accompanied by a transition from an initial dependence on rubber and tin to a broadly diversified basket including palm oil, logs, petroleum and gas, cocoa and manufactured goods.

Malaysia is a multiracial society with approximately 60 percent of the population Malays and other indigenous groups, 31 percent Chinese, and the remainder largely Indian. The country inherited deep divisions in the distribution of income between ethnic communities. Poverty has affected all ethnic groups, but was disproportionately high among Malays; their average per capita incomes were only half those of the Chinese community. In 1971, the government declared a New Economic Policy (NEP), to be effective through 1990, and accorded the highest priority to eradicating poverty and reducing the racial imbalances in income, employment, and ownership of assets. Considerable progress has now been made in poverty alleviation. By 1987, only 19.6 percent of households were living below the poverty line in rural areas and 4.5 percent in urban areas. In addition, there has been substantial progress toward reducing interracial disparities in income and asset ownership.

The Malaysian economy has undergone important structural changes that present policymakers with a new set of economy issues. Manufacturing has surpassed agriculture as the major contributor to GDP and exporting manufactured goods has replaced import substitution as the cutting edge of industrial growth. In particular, there has been a remarkable increase in exports of electronic goods over the past 15 years. However, with few linkages to the rest of the economy, this sector is heavily dependent on internationally competitive wages and faces stiff competition from other developing countries. Recent gains may be reversed if the present surpluses in the current account generate pressure on the ringgit to appreciate.

Another segment of manufacturing, oriented inwardly, has also grown rapidly over the past decade, but within a policy framework featuring variable effective rates of protection, directed credit and handsome fiscal incentives. Government has itself become a large direct investor in major industrial projects. This segment of manufacturing showed signs of weaknesses, in the aftermath of recession, reflected in low productivity growth, declining profits and excess capacity. Programs of privatization and industrial restructuring are underway to revitalize the sector.

The agricultural sector has remained a major dynamic force in Malaysia's economy, with first palm oil and now cocoa and logs providing much of the growth impetus. Although timber production has been buoyant, forest resources have been exploited at rates far in excess of the sustainable yield and considerable environmental degradation is evident. The government has restricted logging in Peninsular Malaysia, but the larger problems in Sabah and Sarawak have yet to be tackled. In the medium run, it is inevitable that logging output fall, in a planned, coordinated fashion or as a result of resource depletion. Rubber production has also been fluctuating around a declining trend for several years. Food crops, especially padi, have proven to be uneconomical at prevailing world prices and, despite a steady and considerable rise in subsidies to the sector, padi output has stagnated and cropped acreage fallen in recent years.

One important reason for agricultural stagnation has been the rise in overall living standards and the migration of the young and educated from the farms to the towns and from agricultural to industrial occupations. The agricultural labor force may now be peaking in absolute numbers; consequently, the policy thrust must be toward productivity and efficiency gains, rather than toward increases in acreage. Goals such as rice self-sufficiency have further receded, with more emphasis on concentration on higher-value crops.

Economic Policy Adjustments in the Early 1980s

In the early 1980s, Malaysia was beset by serious turbulence in the international economy. Following the 1977-80 period when rising prices for palm oil, rubber, timber, and petroleum improved the terms of trade by about 13 percent and nearly doubled export receipts, the commodity price cycle began to reverse itself in 1980. Over the next two years, the terms of trade declined by more than 8 percent, representing a loss of national income of about 5 percent. Anticipating, in 1980, a short international recession, the government introduced a countercyclical fiscal policy, comprising large expenditure increases and tax cuts, in an attempt to maintain domestic income levels. This combination of falling commodity prices and an expansionary fiscal stance led, in 1981 and 1982, to very large fiscal and balance of payments deficits; thus, in 1981-82, the current account deficit on the balance of payments averaged 12 percent of GNP, while the overall public sector deficit averaged 18 percent of GNP. GDP growth averaged 6 percent a year, and inflation initially accelerated to 9.6 percent a year before falling to 6 percent a year in 1982.

To finance these large deficits, the government had to borrow heavily, both domestically and abroad. Domestic borrowings were largely non-inflationary, from the Employees Provident Fund, the national oil company and the commercial banks. Even so, the ratio of domestic debt to GNP grew from about 37 percent to nearly 48 percent between 1980 and 1982. Increasing proportions of the deficits had to be financed from abroad, and the level of disbursed public external debt more than doubled between 1980 and 1982 (from 16 percent to 32 percent of GNP); there was, in addition, an important shift in the sources of borrowing, away from project financing toward market borrowings. Because of the low levels of external borrowing in the previous decade, this surge in the 1980-82 period did not give rise to a high burden of debt service.

In the face of high interest rates and slipping growth, the deficits recorded in 1981 and 1982 were perceived to be unsustainable and a policy of expenditure restraint was implemented. The overall public sector deficit was brought down from 19 percent of GNP in 1982 to 7 percent by 1985, largely as a result of a cutback in federal development expenditure by one-half, or ten percentage points of GNP. Controlling investments of public enterprises, however, proved to be more difficult, and it was not until 1986 and 1987 that sharp reductions were made in this area. This was opportune as the recession in Malaysia in 1985-86 and the collapse of oil prices put additional pressure on public savings. In contrast to the earlier experience, however, when high public deficits in a booming economy had spilled over into high external current account deficits, the budget weakness of the past two years was accompanied by a sharp turnaround into a surplus in the current account of some 8 percent in 1987. This resulted from shrinking private investment and a surge in savings occasioned by an unexpected recovery in non-oil commodity prices in 1987.

Public expenditure cutbacks in 1985, coupled with deteriorating external demand conditions and a collapse in the property and construction sectors, contributed to Malaysia's worst growth performance in two decades—real GDP fell by 1.0 percent; manufacturing, construction and trade output all declined. Growth remained sluggish in 1986. The government could not, however, provide a direct stimulus to the economy through spending in light of the large prevailing budget deficits. It sought, therefore, to speed up growth through a relaxation of controls; exemption thresholds for industrial licenses were raised; regulations governing equity and employment in foreign-owned companies eased and revised building and planning standards, liberal rezoning and easy land acquisition were packaged into a Special Low Cost Housing Program targeting the construction of 240,000 new units over a three-year horizon.

On the external side, a depreciation of the ringgit by 11 percent against trading partners in 1986 and an appreciation in 1987 in major competitor currencies—the Korean won and the New Taiwanese dollar—helped fuel a surge in manufactured exports, led by electronics but extending to resource-based and other industries. With some improvement in the terms of trade for 1987, rapid export growth generated a current account surplus of 8 percent of GNP. This allowed the federal government to embark on an aggressive program of prepayment of its external debts, in the amount of US$1 billion in 1987. Total outstanding debt, however, rose marginally to US$19 billion (68 percent of GDP) as a result of valuation adjustments of $1.4 billion, primarily on yen-denominated debt.

Recent Economic Developments

The economy bottomed out in the second half of 1986 and strengthened throughout 1987 and 1988, recording growth of 5.3 percent and 8.7 percent, respectively. In the initial phase of recovery, lasting through 1987, export growth and import compression provided the major demand stimulus to production. Domestic demand, particularly in the private sector, remained sluggish and was below its 1982 level in real terms through 1987. This low domestic demand, as well as robust export growth, was responsible for the surplus in the current account of 8.6 percent of GNP registered in 1987.

By 1988 the recovery had moved into a new phase. Private investment and consumption drove growth. Manufacturing remained the leading sector, posting an 18 percent growth, and was responsible for one-half of total GDP growth; but other sectors, including finance, trade, transport and utilities also grew strongly. Moreover, construction finally recovered after three consecutive years of decline. Furthermore, the basis of manufacturing growth broadened to include resource-based industries such as food, oils, beverages and tobacco, domestic consumer products, notably cars, and construction materials (cement, steel). Although exports were still buoyant, imports grew even faster, reversing the role of the external sector from a positive to a negative demand stimulus to growth. Overall, the current account surplus remained high at 5.8 percent of GNP, permitting a continuation of the policy of prepaying external debt.

Strong and rigorous growth, estimated at 8.4 percent, was sustained into 1989. Growth was broad-based, led once more by manufacturing (12 percent). Construction activity also recovered (9 percent), as investments, both private and public, surged ahead. Foreign direct investment registered US$1.85 billion, which is a threefold increase over the value in 1988, with most of the projects in the manufacturing sector. Agriculture continued to grow, but lower commodity prices for rubber, palm oil and cocoa dampened its performance. Logging also declined slightly. These factors limited export growth to 13.8 percent, well below the growth of imports (23.1 percent).

Coupled with growing factor service outflows linked to higher profits of foreign-owned companies, the decline in the merchandise trade surplus translated into a small current account deficit. Nevertheless, government continued to prepay its external debt; balance of payments equilibrium was maintained by strong inflows of private direct investment and other capital. As a result, the debt service ratio, excluding prepayments, fell to 13.3 percent in 1988 from 18.7 percent in 1986. In parallel, the ratio of long-term debt to GDP has fallen from 70.3 percent to 44.5 percent over this period.

Rapid domestic demand expansion has put a slight pressure on prices. The Consumer Price Index for 1989 was estimated to have risen by only 2.9 percent, which, although low, is somewhat higher than the average 1.1 percent annual increase between 1984 and 1988. Stabilization of the currency value and prudent fiscal and monetary policy should minimize continued inflationary pressures.

Development Issues and Prospects

For much of the 1980s, growth and employment were sustained through growing government expenditures. As a result, however, government's share in the economy has expanded to perhaps 40 percent. Faced with high public sector debt and deficits, and weakening productivity growth, government's role has shifted from direct to indirect support for growth. To this end, public development expenditures have been sharply curtailed (by 40 percent relative to the amounts projected in the Fifth Malaysia Plan, 1986-90). Total planned public investment is likely to stabilize at a level around 13-15 percent of GNP, financed, on a net basis, almost exclusively by domestic savings and borrowing. High household savings rates generated by rapid growth and by effective savings institutions should suffice to fund the public deficits without undue crowding out of private investment.

At the same time, government is accelerating its program of privatization, stepping up public-private cooperation in industrial restructuring efforts, and pushing for greater private investment. Policies to promote investment include liberalization of licenses, liberalization of foreign investment guidelines, fiscal incentives, reduction in direct taxes, tariff rationalization, improvement in financial and credit conditions and strengthening of the export financing system.

The basic development strategy will remain one of fostering export-oriented manufacturing, while preserving the productivity and competitiveness of the tree crop sectors. Diversification and the creation of internal linkages are key to achieving the same degree of industrialization as Korea and Taiwan. This will, however, be a difficult task as today's international setting is marked by keen competition among the emerging industrial economies and by increased protectionism in developed countries. It is also marked by a growing turbulence in demands, prices and trade interventions. Managing the economy under these conditions will require flexibility in wage and exchange rate policies, technological upgrading and rapid, decentralized decision-making, best performed by the private sector. Active public intervention in the past achieved the distributional objectives of society. However, recent gains have come from liberalized markets and growth induced tightening of the labor market. As Malaysia increases its participation in the international markets, the challenge for the government is to continue to achieve distributional and restructuring objectives by relying on market competition and gains in efficiency to deliver sustainable growth.

MALAYSIA

Mid-1988 Population (mils.)	17
1988 Per Capita GNP in US$:	1,940

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.7	7.4	4.6	8.7	8.5
Net Indirect Taxes	13.0	14.6	17.1	..	..	..	..	..	..	..	..
Agriculture	27.9	26.4	21.9	..	..	..	..	3.9	3.7	5.2	5.5
Industry	25.3	27.1	37.8	..	..	..	..	9.2	6.1	12.8	10.8
(of which Manufacturing)	9.1	15.0	20.6	..	..	..	..	10.6	7.3	12.0	12.0
Services	46.8	46.6	40.3	..	..	..	..	8.4	3.6	6.7	7.7
Resource Balance	4.3	5.5	2.5	13.9	10.2	4.2	..	..	..	..	..
Exports of GNFS	42.5	39.8	57.5	63.8	67.4	74.0	6.4	8.7	9.5	11.9	13.8
Imports of GNFS	38.2	34.3	55.0	49.9	57.2	69.8	4.4	11.3	4.0	24.2	23.1
Total Expenditures	95.7	94.5	97.5	86.1	89.8	95.8	5.8	8.6	1.6	15.4	13.8
Total Consumption	76.0	69.0	67.1	62.7	63.6	66.9	4.9	8.2	2.3	12.7	9.2
Private Consumption	61.2	53.2	50.5	47.4	49.3	52.7	4.4	8.0	2.3	15.3	9.4
General Government	14.7	15.8	16.5	15.4	14.3	14.2	6.9	8.8	2.2	4.9	8.4
Gross Domestic Investment	19.7	25.5	30.4	23.4	26.1	28.9	9.1	9.7	0.0	22.4	25.0
Fixed Investment	17.1	23.9	31.1	22.9	24.1	29.6	11.3	10.2	-0.6	15.3	31.2
Changes in Stocks	2.6	1.7	-0.7	0.4	2.0	-0.7	..	..	..	..	..
Gross Domestic Saving	24.0	31.0	32.9	37.3	36.4	33.1	7.4	10.6	7.3	6.5	1.8
Net Factor Income	-2.6	-3.3	-3.6	-6.3	-5.5	-4.8	..	..	..	..	..
Net Current Transfers	0.0	-1.0	-0.2	-0.1	-0.1	0.1	..	..	..	..	..
Gross National Saving	21.4	26.8	29.1	30.9	30.8	28.4	6.4	11.3	6.4	8.2	3.5
In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	20,385	35,408	58,233	79,711	86,683	94,026	6.7	7.4	4.6	8.7	8.5
Capacity to Import	10,306	15,320	32,448	50,838	58,206	64,454	3.9	11.7	8.1	14.5	10.7
Terms of Trade Adjustment	1,039	-407	4,235	0	1,322	-279	..	..	..	..	..
Gross Domestic Income	21,424	35,001	62,469	79,711	88,005	93,747	5.6	8.9	3.9	10.4	6.5
Gross National Product	19,689	34,052	56,145	74,729	81,804	89,385	6.6	7.4	4.1	9.5	9.3
Gross National Income	20,728	33,645	60,380	74,729	83,125	89,106	5.4	8.9	3.4	11.2	7.2

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	78.4	98.4	99.1	100.0	102.0	..	2.1	5.4	2.9	2.0	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	91.5	103.7	94.8	100.0	104.8	107.9	1.2	7.3	1.4	4.8	3.0
Implicit Expenditures Defl.	85.1	99.4	99.4	100.0	103.0	107.9	2.3	5.7	2.0	3.0	4.8

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	2.6	2.4	2.6	
Labor Force	..	..	..	
Gross Natl. Income p.c.	2.7	6.4	0.8	
Private Consumption p.c.	1.8	5.5	-0.3	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	0.7	1.5	0.9	
Marginal Savings Rates:				
Gross National Saving	36.9	33.4	39.0	
Gross Domestic Saving	42.1	35.3	45.1	
ICOR (period averages):	..	3.7	6.7	
Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	58.6	49.9	41.6	..
Industry	13.0	15.8	19.1	..
Services	28.5	34.3	39.3	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FUEL	62.4	92.6	104.2	100.0	110.3	118.3	3,082	3,507	2,093	2,496	2,340	2,901
X.OAGRI.RUBBER	94.1	92.3	93.5	100.0	99.3	91.7	2,121	1,158	1,234	1,554	2,007	1,458
X.TIM	65.9	85.3	82.8	100.0	89.4	91.8	1,202	1,117	1,114	1,698	1,531	1,607
X.FOOD.FAT	52.4	78.9	105.6	100.0	101.8	121.3	1,155	1,593	1,167	1,290	1,729	1,732
Manufactures	34.3	60.1	77.6	100.0	127.0	161.1	3,601	4,828	5,423	7,451	10,343	13,535
Residual	91.4	106.1	78.0	100.0	106.1	118.7	1,780	3,126	2,814	3,423	2,898	3,811
Total Exports FOB	56.5	78.2	86.8	100.0	113.2	132.2	12,941	15,329	13,845	17,912	20,848	25,044
F. Merchandise Imports												
Food	71.4	101.9	91.6	100.0	112.2	120.8	541	739	651	725	895	1,075
Fuel and energy	426.2	211.7	104.2	100.0	96.3	63.6	868	454	211	193	157	114
Other Consumer Goods	117.8	98.9	93.0	100.0	133.7	160.2	1,446	1,903	1,824	2,126	3,019	3,857
Other Intermed. Goods	83.7	91.7	85.5	100.0	117.3	143.8	4,688	5,354	5,019	6,035	7,671	9,724
Capital goods	99.6	109.9	88.2	100.0	131.2	195.0	3,229	3,823	3,118	3,598	4,843	7,712
Total Imports CIF	95.9	100.3	88.0	100.0	122.8	158.0	10,772	12,273	10,822	12,677	16,584	22,482

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	127.8	109.5	89.0	100.0	102.8	105.7
Merch. Imports Price Index	88.6	96.5	97.1	100.0	106.5	112.2
Merch. Terms of Trade	144.2	113.4	91.7	100.0	96.5	94.2

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	14,098	17,188	15,594	20,198	23,439	27,967
Merchandise (FOB)	12,868	15,135	13,510	17,754	20,848	24,832
Non-Factor Services	1,229	2,052	2,084	2,444	2,591	3,134
Imports of Goods & NFS	13,489	15,606	13,978	15,846	19,913	26,389
Merchandise (FOB)	10,462	11,557	10,273	11,918	15,289	21,053
Non-Factor Services	3,026	4,049	3,704	3,928	4,624	5,336
Resource Balance	609	1,581	1,617	4,352	3,526	1,577
Net Factor Income	-873	-2,189	-1,776	-1,928	-1,887	-1,791
(interest per DRS)	338	1,481	1,405	1,475	1,499	1,523
Net Current Transfers	-43	-46	-19	-25	-21	33
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-307	-653	-178	2,399	1,618	-181
Net Official Transfers	23	40	56	163	185	35
Curr. A/C Bal. after Off. Transf.	-285	-613	-122	2,561	1,802	-146
Long-Term Capital Inflow	1,021	1,583	1,116	-597	-1,247	831
Direct Investment	934	695	488	423	649	1,845
Net LT Loans (DRS data)	1,111	205	501	-738	-1,606	-1,139
Other LT Inflow (Net)	-1,025	682	127	-282	-291	125
Total Other Items (net)	-268	182	461	-846	-986	544
Net Short Term Capital	414	355	-19	-989	-1,105	300
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-682	-173	480	144	120	244
Changes in Net Reserves	-468	-1,151	-1,455	-1,119	431	-1,230
Net Credit from the IMF	..	-140	-118	0	..	..
Other Reserves Changes	-468	-1,012	-1,337	-1,119	431	-1,230
As Share of GDP:						
Resource Balance	2.5	5.1	5.8	13.8	10.2	4.2
Interest Payments	1.4	4.7	5.1	4.7	4.3	4.1
Current Account Balance	-1.3	-2.1	-0.6	7.6	4.7	-0.5
Memorandum Items:						
Reserves excl. Gold (mil. US$)	4,387	4,912	6,027	7,435	6,527	7,783
Reserves incl. Gold (mil. US$)	5,755	5,677	6,942	8,573	7,491	8,687
Official X-Rate (LCUs/US$)	2.18	2.48	2.58	2.52	2.62	2.71
Index Real Eff. X-R Base 1980	100.00	110.31	92.61	87.80	79.61	..
GDP (millions of current US$)	24,488	31,269	27,787	31,636	34,675	37,472

I. Budget (Federal Government)	Share of GDP (%)						Growth Rates				
	1980	1985	1986	1987	1988	1989	1980-84	1986	1987	1988	1989
Current Receipts	26.2	27.2	27.2	22.8	24.2	23.5	10.6	-7.6	-7.0	21.1	8.6
Current Expenditures	25.5	25.9	28.0	25.3	24.0	23.3	9.8		0.5	8.1	8.4
Current Budget Balance	0.6	1.4	-0.8	-2.6	0.2	0.2	34.1	-153.1	266.6	-107.6	47.7
Capital Receipts	..	..	..	..	..	..	2.4	..	..	..	..
Capital Expenditures	13.8	8.7	9.7	5.2	4.5	5.4	-0.2	2.9	-40.8	-1.6	35.3
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-13.2	-7.4	-10.5	-7.7	-4.3	-5.2	..	31.5	-18.0	-36.8	34.8
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	0.6	1.2	1.9	-3.1	-3.4	-0.7	77.7	41.0	-280.9	26.9	-78.2
Domestic Non-Bank Financing	..	6.1	8.6	10.8	7.7	5.8	..	29.6	39.5	-18.7	-15.3
Domestic Bank Financing	..	..	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions)						Debt Outstanding & Disbursed (US$ millions)					
	1980	1985	1986	1987	1988	1989	1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	889	114	404	-383	-1,336	-374	4,007	14,686	16,635	18,044	16,101	15,108
Official Creditors	133	107	-97	-153	-92	132	1,444	3,304	3,841	4,531	4,268	4,216
Multilateral	85	17	-26	15	-4	86	745	1,195	1,344	1,576	1,472	1,570
of which IBRD	54	4	-43	-7	-17	15	504	776	908	1,116	998	938
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	48	90	-71	-168	-88	47	699	2,109	2,497	2,956	2,797	2,646
Private Creditors	756	7	501	-230	-1,244	-506	2,564	11,383	12,794	13,513	11,833	10,892
Suppliers	113	17	-2	-73	-209	-99	195	626	727	791	563	434
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	223	92	97	-355	-270	-765	1,248	2,960	2,891	2,610	2,340	1,575
Total LT	1,111	205	501	-738	-1,606	-1,139	5,256	17,647	19,526	20,654	18,441	16,682
IMF Credit	0	-158	-126	0	0	0	0	118	0	0	0	0
Net Short-Term Capital	414	355	-19	-989	-1,105	300	1,355	2,685	2,413	2,026	2,100	2,738
Total incl. IMF & Net ST	1,526	402	357	-1,727	-2,711	-839	6,611	20,450	21,939	22,680	20,541	19,421

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	9.60	4.40	4.65	5.40	5.41	5.63
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	9.60	4.40	4.65	5.40	5.41	5.63
Share of LT Debt Service						
1. IBRD as % of Total	9.57	2.47	5.63	4.77	4.27	5.67
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	9.57	2.47	5.63	4.77	4.27	5.67
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	35.42	99.26	120.97	98.43	75.75	57.89
2. IMF Credit/Exports	0.00	0.66	0.00	0.00	0.00	0.00
3. Short-Term Debt/Exports	9.13	15.10	14.95	9.66	8.63	9.50
4. LT+IMF+ST DOD/Exports	44.56	115.02	135.92	108.09	84.38	67.39
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	21.46	56.44	70.27	65.29	53.18	44.52
2. IMF Credit/GDP	0.00	0.38	0.00	0.00	0.00	0.00
3. Short-Term Debt/GDP	5.53	8.59	8.68	6.40	6.06	7.31
4. LT+IMF+ST DOD/GDP	27.00	65.40	78.95	71.69	59.24	51.83
Debt Service /Exports						
1. Public & Guaranteed LT	2.54	24.61	13.70	14.35	17.43	9.42
2. Private Non-guaranteed LT	2.07	4.35	6.35	5.64	4.78	3.47
3. Total Long-Term Debt Service	4.60	28.96	20.05	19.99	22.21	12.89
4. IMF Repurchases+Serv. Chgs.		0.98	0.80			
5. Interest only on ST Debt	1.69	1.26	1.06	0.92	0.66	0.58
6. Total (LT+IMF+ST Int.)	6.30	31.20	23.60	22.75	22.87	13.82

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Maldives

Maldives is an archipelago of nearly 1,200 coral islands in the Indian Ocean, lying to the west of India and Sri Lanka. The climate is tropical and dominated by monsoons. The islands are grouped into 19 atolls, forming a long, narrow chain over an area of about 107,000 square kilometers. The total land area is 298 square kilometers, of which less than 10 percent (about 28 square kilometers) is cultivable. More than a quarter of the total population of about 202,000 (1988 estimate) lives in the capital, Male (area 2 square kilometers), which is the only urban center. The rest of the population is fairly evenly dispersed north and south of Male, on about 200 other islands.

The limitations of inter-island transport and communications mean the atolls and Male remain relatively isolated from each other. This dispersion greatly increases the costs of distribution of commodities and provision of social and economic services that are now heavily concentrated in Male. The population is estimated to be growing at 3.5 percent per annum. The growth rate in the capital is 6.6 percent per annum due to the rapid inflow of local migrants attracted by the heavy concentration of incomes, resources and services in Male.

Marine resources and tourist attractions constitute the main natural endowments of the country, and economic activity is heavily concentrated in these two sectors. Agricultural production—mostly subsistence cultivation of coarse grains, tubers and tropical fruits—meets only 10 percent of food consumption; major food staples, other than fish, are imported. Possibilities for agricultural production are severely limited by the extremely small cultivable area and sandy soils. There are no known mineral resources. Industrial activity is confined to cottage industries, small-scale fabrication and repair, and recently established export-oriented garment factories. The lack of resources and the small size of the domestic market rule out any major import-substituting enterprise. The openness of the economy and its specialized nature render the Maldives highly vulnerable to external shocks.

Economic Developments and Policy Adjustments

During 1974-88, real GDP grew at an annual rate of about 10 percent. Most of the impetus to this growth came from fishing and tourism. Fishing, which received a boost from the mechanization and improved design of the fishing fleet, as well as the completion of a new cannery and modernization of other processing facilities, accounts for 16 percent of GDP. Tourism has now become an even larger sector of the economy, accounting for 17 percent of GDP, 60 percent of foreign exchange earnings and about 25 percent of government revenues. The growth of tourism was encouraged by the completion of Male International Airport in 1981 and the scheduled routing of airlines through Maldives, as well as increasing number of charter aircraft flying directly to Male. In recent years, growth in the sector has been supported by pragmatic government investment policies, which have opened up new opportunities for private investors.

Although the overall growth rate since 1974 has been substantial, it was, until 1984, accompanied by relatively expansionary fiscal and monetary policies, a tightening of the labor market, a rapidly increasing wage level and inflation. These domestic imbalances led to concurrent external imbalances, with the current account deficit reaching 41 percent of GDP and the debt service ratio 20 percent of GDP in 1983.

Faced with an unsustainable external position, the government initiated adjustment policies in 1984, with a view to restoring macroeconomic stability. The overall budget deficit, which had widened to 17 percent of GDP in 1983, was reduced to 4.4 percent of GDP by 1985. This was achieved both through expenditure cutbacks, primarily in capital spending, and new revenue generating measures. In order to restrain the growth of domestic credit, credit to public enterprises was reduced in 1984, and ceilings on credit-deposit ratios for commercial banks' lending to the private sector were introduced in 1985. Inflation was brought down from 10 percent in 1983 to 5 percent in 1986.

To redress the balance of payments situation, the rufiyaa peg was changed from the U.S. dollar to a basket of currencies in July 1985. This was followed by a small depreciation in the nominal effective exchange rate. In addition, in 1986 the government introduced an import licensing scheme and imposed a foreign exchange financing requirement for the issuance of import licenses. This led to a significant improvement in the current account which moved from a deficit of 9.4 percent of GDP in 1986 to a small surplus of about 0.1 percent of GDP in 1987.

Since 1986-87, the structure of adjustment has improved. Substantial efforts to increase government revenues enabled the government to increase investment expenditures following the 1985 cutback, while achieving a budgetary surplus of around 3 percent of GDP in 1987 and 1988. Also, as the rufiyaa remained overvalued despite the mid-1985 devaluation, and the parallel market continued to be active, hampering both the domestic production of tradeables and the effectiveness of credit policy in controlling import demand, the government devalued the rufiyaa to the parallel market rate in 1987. Since then the exchange rate has been left to float freely. A further move to strengthen the external sector was made in 1989 when the government lifted all import quotas.

Real GDP continued to exhibit strong growth in 1989. Value added by tourism increased, despite a fall in the number of tourists resulting from recent political uncertainties, and activity in other sectors of the economy was vigorous. In addition to fisheries, the trade and distribution sector showed strong growth from heavy import trade following import liberalization. Also, the start of several important projects—the new tourist resorts in Ari Atoll, the upgrading of some existing resorts, the construction of the Male breakwater and the expansion of the Male Airport— led to considerable construction activity. Finally, a leading multinational company embarked on off-shore oil exploration in 1989.

Following the liberalization of imports, the current account moved into a deficit of about 5 percent of GDP in 1989, despite the continued high growth of exports. The overall balance of payments also showed a small deficit. In part this was due to a reduction in net private capital inflows, possibly as a result of recent political events.

Real GDP growth is expected to remain buoyant at around 8-9 percent in 1990. A budget deficit of around 11 percent of GDP is expected this year. This is primarily on account of substantial increases in capital expenditures for internal security and on the Integrated Atoll Development and Water and Sanitation projects. However, the actual deficit may be much lower, as revenues may be higher than expected and as some public investments may not be implemented as rapidly as anticipated.

External Debt

Prior to 1978, Maldives had virtually no external debt. However, over the following five years, external debt accumulated rapidly, reaching nearly 120 percent of GDP in 1984, with short-term debt accounting for over 40 percent of the total. During 1984-86, the government consolidated and converted short-term shipping debt into medium-term debt, and rescheduled a significant portion of medium- and long-term obligations assumed on account of the national shipping line. Coupled with improvements in the performance of the external sector and a more prudent external borrowing strategy, this led to a fall in debt obligations to about 50 percent of GDP in 1988 and a reduction in the debt service ratio to about 7 percent. Debt obligations fell further to 45 percent of GDP in 1989 and the debt service ratio declined to 5 percent. This is the lowest for several years and about half the level of the mid-1980s.

Development Issues

In the medium term, growth will continue to depend on fishing and tourism. Provided that recent political events have no long-term adverse consequences, the momentum from ongoing investments and contracts should ensure continued growth in both sectors over the next two to three years. Beyond that, important factors are the projected movement in tuna prices and the size of the catch, and, in the tourism sector, the ability of the Maldives to continue to attract a growing number of tourists.

Although the scarcity of cultivable land precludes any major development of the agricultural sector, some opportunities exist for profitable investments in certain areas. The authorities have initiated a program in which some 55 islands are being leased out to private growers for the cultivation of coconut, timber and firewood.

Prudent fiscal policies, and the directing of public investments toward priority infrastructure and human resource development, as envisaged in the new National Development Plan, will be important to ensure continued growth and viable fiscal and balance of payments positions. Much will also depend on the country's success in relieving the shortages of skilled and semi-skilled labor. The government's strategy to improve the skills of the labor force through basic and higher education as well as through the selective use of overseas training opportunities is therefore of crucial importance.

MALDIVES

Mid-1988 Population (000)	202
1988 Per Capita GNP in US$:	410

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	1973	1980	1987	1988	1989	1965-73	1973-80	1980-88	1988	1989
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	9.7	8.7	8.4
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	..
Agriculture	..	..	..	..	..	..	..	..	..	4.8	5.4
Industry	..	..	..	..	..	..	..	..	..	10.2	9.9
(of which Manufacturing)	..	..	..	..	..	..	..	..	..	..	..
Services	..	..	..	..	..	..	..	..	..	10.4	9.4
Resource Balance	..	..	..	..	..	..	..	..	..	..	..
Exports of GNFS /1	..	..	..	..	..	..	..	..	..	..	..
Imports of GNFS	..	..	..	..	..	..	..	..	..	..	..
Total Expenditures	..	..	..	..	..	..	..	..	..	..	..
Total Consumption	..	..	..	..	..	..	..	..	..	..	..
Private Consumption	..	..	..	..	..	..	..	..	..	..	..
General Government	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Investment	..	..	..	..	..	..	..	..	..	..	..
Fixed Investment	..	..	..	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	..	..	..	..	..	..	..	..	..	..
Net Factor Income	..	..	..	-15.1	-12.0	..	..	..	..	..	..
Net Current Transfers	..	..	..	-1.6	-0.6	..	..	..	..	..	..
Gross National Saving	..	..	..	..	..	..	..	..	..	..	..
In millions of Rufiyaa (at constant 1987 prices)	1965	1973	1980	1987	1988	1989					
Gross Domestic Product	..	..	360	684	744	806	..	..	9.7	8.7	8.4
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	161	243	312	581	657	..	6.3	3.1	9.2	13.2	..
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	1980	1985	1986	1987	1988	1989	1965-73	1973-80	1980-88	1988	1989
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	5.8	8.0
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	..	81.0	83.7	100.0	124.6	..	..	..	7.1	24.6	..
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	1965-73	1973-80	1980-88
Population	3.1	3.1	3.4
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	..	..	..
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	1965	1973	1980	1988
Agriculture	..	..	..	..
Industry	..	..	..	..
Services	..	..	..	..
Total	100.0	100.0	100.0	100.0

1/ Goods and nonfactor services.
2/ Denotes the line number in the country pages of the International Financial Statistics, IMF.
3/ At market prices.
4/ Incremental capital-output ratio.
e/ Estimated data.

E. Merchandise Exports	Volume Index						Value at Current Prices (millions US$)					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
X.FOOD.FISH (FROZEN)	..	..	..	..	..	..	..	9	10	10	13	..
X.MAN.FISH (CANNED)	..	..	..	..	..	..	..	2	1	4	7	..
X.MAN.GARMENTS	..	..	..	..	..	..	..	8	9	12	10	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	8	8	9	14	..
Total Exports FOB	..	75.7	76.9	100.0	105.5	..	13	26	27	35	45	50
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	..	..	..
Fuel and energy	..	..	..	..	..	..	..	7	5	11	12	15
Other Consumer Goods	..	..	..	..	..	..	..	26	19	43	53	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports CIF	..	91.1	94.6	100.0	114.6	..	44	56	68	74	95	115

G. Merchandise Terms of Trade	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	..	96.2	100.3	100.0	127.3	..
Merch. Imports Price Index	..	86.3	90.1	100.0	106.3	..
Merch. Terms of Trade	..	111.6	111.3	100.0	119.8	..

H. Balance of Payments	US$ millions (at current prices)					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*
Exports of Goods & NFS	65	92	89	104	121	135
Merchandise (FOB)	13	26	27	35	45	50
Non-Factor Services	52	67	62	69	76	85
Imports of Goods & NFS	87	85	88	101	118	148
Merchandise (FOB)	44	58	63	74	95	111
Non-Factor Services	43	27	25	27	23	37
Resource Balance	-22	7	1	3	3	-13
Net Factor Income	-3	-13	-14	-11	-11	-11
(interest per DRS) /5	0	2	2	2	2	2
Net Current Transfers	0	-2	1	-1	-1	-1
(workers' remittances)	0	0	1	..	..	..
Curr. A/C Bal. before Off. Transf.	-25	-8	-13	-9	-8	-25
Net Official Transfers	3	4	4	9	11	19
Curr. A/C Bal. after Off. Transf.	-22	-5	-9	0	2	-6
Long-Term Capital Inflow	18	-2	7	-1	-1	3
Direct Investment	..	..	..	..	..	..
Net LT Loans (DRS data)	18	-2	7	-1	-1	0
Other LT Inflow (Net)	0	0	-1	0	0	..
Total Other Items (net)	4	6	4	2	9	..
Net Short Term Capital	-2	-1	-7	-9	-2	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	6	7	11	11	11	..
Changes in Net Reserves	0	1	-2	-1	-11	3
Net Credit from the IMF	..	..	..	..	..	..
Other Reserves Changes	0	1	-2	-1	-11	3
As Share of GDP:						
Resource Balance	..	8.3	1.1	3.2	2.6	-10.1
Interest Payments	..	2.4	2.1	2.1	1.7	1.5
Current Account Balance	..	-9.5	-13.8	-9.5	-6.8	-18.9
Memorandum Items:						
Reserves excl. Gold (mil. US$)	1	5	7	8	22	25
Reserves incl. Gold (mil. US$)	1	5	7	8	22	25
Official X-Rate (Rufiyaa/US$)	7.55	7.10	7.15	9.22	8.78	9.04
Index Real Eff. X-R Base 1980	0.00	0.00	0.00	0.00	0.00	0.00
GDP (millions of current US$)	..	85	94	95	117	132

Notes:

5/ The Bank's Debtor Reporting Service.
e/ Estimated data.

I. Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	29.3	39.1	43.4	42.6	50.2	..	50.1	44.4	15.2	36.4
Current Expenditures	..	20.1	20.6	20.2	20.5	24.1	..	14.9	27.3	19.3	36.0
Current Budget Balance	..	9.2	18.5	23.2	22.1	26.1	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	13.4	25.6	20.5	18.9	26.5	..	113.5	4.3	8.5	62.4
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-4.3	-7.0	2.8	3.2	-0.4	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	..	-0.5	4.6	0.1	-0.4	0.9	..	..	..	..	..
Domestic Non-Bank Financing	..	..	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	..	4.8	2.4	-2.9	-2.8	-0.5	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	18	-2	7	-1	-1	0	25	51	59	62	59	59
Official Creditors	18	1	6	0	1	1	25	44	50	54	54	53
Multilateral	3	0	5	2	2	2	4	16	22	27	28	28
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	2	1	1	1	1	1	2	4	5	7	7	8
Bilateral	15	1	0	-2	-1	-1	21	28	28	27	26	25
Private Creditors	0	-3	2	-1	-2	-1	0	7	9	8	6	5
Suppliers	0	0	1	0	0	0	0	1	2	1	1	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	18	-2	7	-1	-1	0	25	51	59	62	59	59
IMF Credit	0	0	0	0	0	0	0	0	0	0	0	0
Net Short-Term Capital	-2	-1	-7	-9	-2	..	1	34	10	11	12	12
Total incl. IMF & Net ST	16	-3	0	-10	-3	..	26	85	69	73	71	71

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD /6						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	6.45	7.51	8.69	11.31	12.48	13.46
3. IBRD+IDA as % of Total	6.45	7.51	8.69	11.31	12.48	13.46
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	0.79	1.54	1.15	1.28
3. IBRD+IDA as % of Total	0.00	0.00	0.79	1.54	1.15	1.28
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	54.76	65.44	59.35	48.81	42.75
2. IMF Credit/Exports	..	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/Exports	..	36.80	11.15	10.55	9.88	8.70
4. LT+IMF+ST DOD/Exports	..	91.56	76.59	69.89	58.68	51.45
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	..	60.35	62.59	65.26	50.34	44.86
2. IMF Credit/GDP	..	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/GDP	..	40.23	10.61	11.58	10.24	9.12
4. LT+IMF+ST DOD/GDP	..	100.58	73.20	76.83	60.58	53.98
Debt Service /Exports						
1. Public & Guaranteed LT	..	8.23	14.16	6.23	7.16	5.00
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	..	8.23	14.16	6.23	7.16	5.00
4. IMF Repurchases+Serv. Chgs.	..					
5. Interest only on ST Debt	..	1.95	0.78	0.86	0.91	..
6. Total (LT+IMF+ST Int.)	..	10.17	41.69	7.09	8.07	..

Notes:

6/ Debt outstanding and disbursed.
e/ Estimated data.

Mali

Mali is a vast, landlocked, and resource-poor country located in the Sahelian zone of western Africa. Only about a quarter of its 1.2 million square kilometers is arable. Nearly 90 percent of the population, estimated at about 8 million in 1988, is dependent on agriculture, which accounts for roughly 50 percent of GDP. Per capita income is estimated at US$230 in 1988 and social indicators, such as life expectancy, are among the lowest in the world. Population growth is an estimated 2.7 percent per annum.

Mali's economic performance is highly constrained by a narrow resource base and the legacy of inappropriate past policies, including inefficient public resource management and distortions in the structure of economic incentives.

Weak Resource Base. Mali's potential for long-term growth is severely limited by harsh resource constraints. Growth in the agricultural sector is conditioned by low rainfall, fragile soils, and low-productivity traditional technologies. In addition, the weak human resource base represents a formidable obstacle to future growth. Primary education enrollment rates are among the lowest in the world and basic health services are not widely available. These problems are compounded by high population growth which puts severe pressure on both the limited natural resource base and the financial resources available for the provision of basic public services.

Public Resource Management. The state-dominated development strategy pursued until the early 1980s led to serious inefficiencies with regard to both resource mobilization and allocation. High levels of personnel expenditure and subsidies left inadequate funds for operation and maintenance expenditure. Public investment decisions gave insufficient attention to financial and economic selection criteria, such as debt service and recurrent cost implications. The overly complex fiscal system severely distorted resource allocation signals, and gave little attention to cost recovery for public services. In addition, non-market credit allocation procedures led to rapid credit growth, particularly to the public sector. The performance of the public enterprise sector has been a particularly acute manifestation of poor public resource management.

Incentives Framework. In addition to the public resource management inefficiencies mentioned above, price controls, a restrictive trade regime, and excessive economic regulation have distorted incentives, skewed resource allocation, and thus impeded growth throughout the economy. Public enterprises both contributed to these distortions through, for example, import monopolies and suffered from them through measures such as price controls.

Recent Economic Developments

Mali's structural problems combined with a highly variable climate have led to erratic economic performance. Real GDP growth averaged about 5.6 percent per annum over the past five years and 3.5 percent over the past decade. These averages mask large annual variations, however, which are directly linked to climatic conditions. During the last five years, growth has ranged from -1.0 percent to 18.6 percent. Most recently, exceptionally good weather and improved policy conditions contributed to GDP growth of 9.6 percent in 1989. Per capita income has increased by about 1 percent per annum over the past decade. The current government budget (including annexed budgets and special funds) has moved from a deficit of 0.8 percent of GDP in 1985 to a surplus of 2.7 percent of GDP in 1989. The overall government budget deficit (including foreign-financed investment expenditure) has fallen steadily from its peak of 15.2 percent of GDP in 1985 to 9.5 percent of GDP in 1989. The current account deficit is estimated to have fallen to 14 percent of GDP in 1989 (4 percent including grants) from a peak of 31 percent in 1985, largely because of price and volume increases for cotton exports and a fall in the value of food and petroleum imports.

Despite erratic growth, both consumption and investment have been sustained by inflows of official development assistance. Roughly half of this assistance has been in the form of loans and at end-1989 total public debt outstanding and disbursed exceeded 107 percent of GDP. Although most of Mali's external debt is contracted on concessional terms, debt service obligations increased dramatically in the mid-1980s. The debt service ratio, excluding debt service to China and the USSR and before debt relief, peaked at 30.9 percent in 1986 and has subsequently declined slowly to 27.1 percent in 1989. As a result of the rapid increase in scheduled debt service in the mid-1980s, Mali accumulated external arrears exceeding US$100 million at end-1987. These arrears were totally cleared by end-1989, primarily through debt relief. In 1988, Paris Club creditors agreed to reschedule, on Toronto terms, 100 percent of Mali's arrears, plus 100 percent of eligible principal and interest obligations through October 31, 1989. Additional rescheduling took place with non-Paris Club creditors. Mali returned to the Paris Club in November 1989 and obtained multi-year debt relief through 1991 on Toronto terms, as well as the rescheduling of arrears on short-term commercial debt and late interest payments for five years with a two-year grace period.

Confronted with unsustainable fiscal and external deficits, the government launched a series of adjustment programs in 1982. They led to substantial progress in reducing financial imbalances until the pace of reform slowed noticeably in late 1986. In the absence of adequate adjustment measures in 1987, the economic and financial situation became increasingly difficult and a major crisis developed. To redress the situation, the government of Mali started implementing in mid-1988 a medium-term adjustment program.

Wide-ranging structural measures have been implemented since 1988. With regard to the financial sector, the Banque de Developpement du Mali (BDM), which had been illiquid since 1987, was in 1989 restructured and transformed into a joint share company with only 20 percent of its capital held by the Malian public sector. Cereals marketing has been fully liberalized and producer and consumer price controls for all coarse grains have been abolished. In the cotton sector, which had adjusted rapidly to the fall in export prices in 1985/86, a medium-term restructuring program is being implemented, including the linking of producer prices to world market prices and the replacement of export taxes by profit taxes. The number of goods and services subject to price controls was reduced to only four essential products as of January 1, 1990. All export monopolies and most import monopolies have been abolished, and the state trading company (SOMIEX) liquidated. In 1989, the import and export licensing system was replaced with a registration system, while all remaining quantitative restrictions were phased out. With regard to public enterprises, institutional and legal reforms have been implemented as planned, and fifteen public enterprises have been liquidated, restructured or privatized. Furthermore, a restructuring plan for the postal checking and savings system has been agreed upon including its separation from the postal company and management by a mixed-capital financial institution subject to central bank control.

Medium-Term Prospects and Policies

In November 1989, the government prepared a second policy framework covering 1990-92 which aims at achieving a sustainable rate of growth consonant with domestic and external financial stability. The three key objectives of the program are (a) to attain an average annual growth rate of real GDP of about 4 percent by 1992; (b) to contain the annual rate of inflation, as measured by the GDP deflator, at about 3.0 percent; and (c) to reach a viable external sector position by 1992.

The program emphasizes policies aimed at (i) fostering conditions conducive to promoting private sector activity, savings and investment, and international competitiveness; (ii) improving public resource management, including a strengthening of the public sector financial position; and (iii) developing the human resource base and strengthening the management of natural resources. To promote private sector activity, and in particular small-scale industries, the government is committed to further liberalization of pricing and marketing policies as well as streamlining of administrative procedures. In the agricultural sector, the three key objectives are promotion and diversification of agricultural production, achievement of increased food security, and improvement of natural resource management. With regard to public resource management, the government will revise and simplify the tax system with a view to enhancing its elasticity and improving private sector incentives. In particular, import taxation will be simplified and export taxation eliminated. On the expenditure side, the government will improve the structure of current expenditures, including measures to contain the expansion of the wage bill, as well as programming and budgetary control of public investments. The government will also accelerate the reform of the public enterprise sector. The government is also formulating a national population policy, encouraging community and private sector participation as well as greater cost recovery in the health sector, and restructuring the primary and higher education subsectors.

Financing Plan and External Capital Requirements

As part of its policy framework, the government has prepared a medium-term financing plan which would be consistent with the macroeconomic framework and available financial resources. To maintain gross investment at an average 21 percent of GDP over 1990-92, over 90 percent of public investment expenditures are expected to be financed by foreign donors. External financing requirements for 1990-92 are estimated to be on the order of US$1.2 billion. This level of financing implies a continuation of per capita ODA flows on the order of US$45-50 per annum. Disbursements from grants and existing loan commitments are projected to provide about two-thirds of the required external financing. The remaining gap will need to be financed by IMF resources, bilateral debt relief, and additional aid, including IDA lending.

MALI

Mid-1988 Population (mils.)	8
1988 Per Capita GNP in US$:	230

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.7	6.3	3.1	-1.0	9.6
Net Indirect Taxes	..	5.0	4.2	5.2	5.4	5.5	..	..	..	..	..
Agriculture	..	54.7	58.4	48.7	49.0	49.6	0.9	7.1	0.3	-0.7	14.5
Industry	..	12.4	9.3	11.8	11.8	12.2	1.1	1.6	8.1	-0.7	5.9
(of which Manufacturing)	..	8.1	4.3	6.3	6.2	6.6	..	..	7.0	-2.6	5.1
Services	..	32.9	32.3	39.5	39.1	38.2	8.5	6.4	5.8	-1.5	4.6
Resource Balance	..	-13.4	-18.8	-16.9	-18.8	-16.1	..	..	..	..	..
Exports of GNFS	..	10.8	16.1	16.9	16.2	17.0	12.1	10.8	3.8	-5.7	10.1
Imports of GNFS	..	24.2	35.0	33.8	35.0	33.1	5.6	8.5	5.4	2.3	2.6
Total Expenditures	..	113.4	118.8	116.9	118.8	116.1	2.4	6.3	3.6	-1.1	7.4
Total Consumption	..	95.5	101.9	94.0	96.1	91.7	2.8	6.3	2.6	-0.8	6.3
Private Consumption	..	87.1	91.5	83.1	85.2	81.6	2.8	6.6	2.5	-1.0	6.8
General Government	..	8.4	10.4	10.8	10.9	10.1	2.3	4.4	3.4	0.5	2.5
Gross Domestic Investment	..	17.9	17.0	22.9	22.6	24.4	1.0	6.4	9.1	-2.4	12.1
Fixed Investment	..	16.7	17.0	21.1	21.6	21.3	..	..	..	..	..
Changes in Stocks	..	1.2	0.0	1.8	1.0	3.1	..	..	..	..	..
Gross Domestic Saving	..	4.5	-1.9	6.0	3.9	8.3	-0.8	..	..	-36.9	106.1
Net Factor Income	..	-0.3	-1.0	-1.5	-1.5	-1.5	..	..	..	..	..
Net Current Transfers	..	1.2	2.5	2.6	3.1	2.4	..	..	..	..	..
Gross National Saving	..	5.4	-0.4	7.2	5.5	9.3	0.7	..	..	-24.3	62.1
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	254	308	445	569	563	617	2.7	6.3	3.1	-1.0	9.6
Capacity to Import	..	33	68	96	91	104	-0.5	11.5	5.0	-5.4	14.0
Terms of Trade Adjustment	..	-5	-12	0	-11	-9	..	..	..	..	..
Gross Domestic Income	..	304	433	569	552	608	1.8	6.3	3.2	-3.0	10.2
Gross National Product	..	307	441	560	555	608	2.6	6.4	3.1	-1.0	9.5
Gross National Income	..	303	428	560	544	599	1.9	6.4	3.3	-3.0	10.2

C. Price Indices	*1980*	*1985*	(1987 = 100) *1986*	*1987*	*1988*	*1989*	Inflation Rates (% p.a.) *1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	77.3	99.9	94.2	100.0	102.7	104.0	7.7	10.7	3.8	2.7	1.0
Implicit Expenditures Defl.	79.8	103.4	98.6	100.0	104.5	105.5	8.6	10.5	3.6	5.4	1.0

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.1	2.2	2.4
Labor Force	..	..	..
Gross Natl. Income p.c.	-0.2	4.1	0.8
Private Consumption p.c.	0.7	4.3	0.1
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	2.1	1.3	1.8
Marginal Savings Rates:			
Gross National Saving	..	-13.9	29.8
Gross Domestic Saving	..	-16.3	26.5
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	90.4	88.0	85.5	..
Industry	1.3	1.7	2.0	..
Services	8.3	10.3	12.5	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume I Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
XCOTTON	68.0	70.1	89.8	100.0	93.2	123.2	99	73	69	106	94	125
X.LIVESTOCK	120.5	109.9	100.0	100.0	108.4	107.7	80	48	59	70	74	73
Other exports	..	..	..	..	..	..	26	55	78	81	83	75
Total Exports FOB	84.0	84.9	97.5	100.0	99.2	113.7	205	176	206	256	251	273
F. Merchandise Imports												
Food	51.5	220.6	277.8	100.0	..	104.4	45	141	81	64	99	75
Fuel and energy	111.1	122.2	101.1	100.0	100.0	107.7	80	80	78	68	66	61
Other Consumer Goods	..	..	..	..	..	..	372	248	325	348	347	..
Other Intermed. Goods	107.5	134.4	109.7	100.0	101.1	101.6	497	469	484	479	513	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	95.3	81.0	82.6	100.0	100.5	..
Merch. Imports Price Index	96.5	72.9	92.2	100.0	106.0	..
Merch. Terms of Trade	98.7	111.2	89.5	100.0	94.8	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	263	220	257	320	314	341
Merchandise (FOB)	205	176	206	256	251	273
Non-Factor Services	58	44	51	64	63	68
Imports of Goods & NFS	520	578	625	639	679	663
Merchandise (FOB)	308	328	339	335	375	344
Non-Factor Services	212	249	287	304	303	319
Resource Balance	-257	-357	-368	-319	-364	-322
Net Factor Income	-17	-19	-27	-28	-29	-30
(interest per DRS)	3	13	13	14	15	..
Net Current Transfers	40	47	47	50	60	48
(workers' remittances)	59	67	68	88	96	..
Curr. A/C Bal. before Off. Transf.	-234	-330	-347	-297	-333	-303
Net Official Transfers	110	197	186	202	242	223
Curr. A/C Bal. after Off. Transf.	-124	-133	-161	-95	-91	-80
Long-Term Capital Inflow	111	98	126	90	125	139
Direct Investment	2	3	-8	-6	-1	..
Net LT Loans (DRS data)	89	85	161	121	122	118
Other LT Inflow (Net)	19	10	-27	-25	4	31
Total Other Items (net)	6	-15	-16	-2	4	..
Net Short Term Capital	37	24	32	4	-1	..
Capital Flows N.E.I.	0	0	0	0	..	0
Errors and Omissions	-31	-39	-48	-6	..	..
Changes in Net Reserves	8	49	51	7	-39	-59
Net Credit from the IMF	3	5	-10	-27	-7	-17
Other Reserves Changes	5	44	61	34	-32	-42
As Share of GDP:						
Resource Balance	-15.8	-33.8	-24.2	-16.9	-18.8	-16.0
Interest Payments	0.2	1.2	0.8	0.7	0.8	0.8
Current Account Balance	-14.4	-31.2	-22.9	-15.7	-17.2	-13.6
Memorandum Items:						
Reserves excl. Gold (mil. US$)	15	23	23	16	36	116
Reserves incl. Gold (mil. US$)	26	29	31	25	44	123
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	100.00	94.67	93.09	78.21	79.63	78.20
GDP (millions of current US$)	1,629	1,057	1,525	1,893	1,941	2,012

I. Consolidated Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Receipts	..	14.9	17.9	15.7	14.8	16.3	..	32.9	-5.5	-4.0	22.4
Expenditures	..	30.2	30.4	26.0	25.3	25.8	..	11.9	-7.9	-1.9	12.9
Budget Balance (commitment)	..	-15.2	-12.5	-10.3	-10.6	-9.5	..	-8.8	-11.2	-1.2	-0.5
Adjustment	..	0.3	-0.3	1.1	-3.8	-5.1	..	-223.3	-281.1	-428.3	48.6
Budget Balance (cash)	..	-14.9	-12.8	-9.2	-14.4	-14.6	..	-4.1	-22.6	-55.0	12.3
Budgetary Grants	..	5.7	4.9	5.5	5.9	5.8	..	-5.5	20.9	8.7	10.3
External Borrowing (net)	..	7.9	8.0	4.7	9.9	10.8	..	-112.8	-580.0	112.2	21.4
Domestic Non-Bank Financing	..	1.2	-0.8	-0.5	1.1	-0.7	..	-176.3	-42.2	-353.8	-172.7
Domestic Bank Financing	..	-0.2	1.1	-0.6	-2.6	-1.4	..	-645.5	-160.0	216.6	-42.0

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	89	85	161	121	122	118	670	1,306	1,583	1,913	1,928	2,053
Official Creditors	81	87	161	123	124	119	635	1,257	1,527	1,852	1,901	2,030
Multilateral	35	38	81	79	96	88	173	400	504	632	707	800
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	19	28	44	42	59	46	121	224	277	340	390	434
Bilateral	46	49	80	44	28	31	461	856	1,024	1,220	1,195	1,230
Private Creditors	8	-2	0	-2	-2	-2	36	50	56	61	27	23
Suppliers	4	-1	-1	-1	-1	-1	16	25	25	26	12	10
Financial Markets	4	-2	1	-1	-2	..	19	25	31	35	15	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	89	85	161	121	122	118	670	1,306	1,583	1,913	1,928	2,053
IMF Credit	11	5	-10	-27	-7	-17	39	98	99	85	74	55
Net Short-Term Capital	37	24	32	4	-1	..	24	68	83	94	65	45
Total incl. IMF & Net ST	137	114	183	98	113	..	733	1,472	1,765	2,092	2,067	2,153

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	18.03	17.18	17.48	17.76	20.23	21.12
3. IBRD+IDA as % of Total	18.03	17.18	17.48	17.76	20.23	21.12
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	8.51	7.89	10.89	15.25	10.20	12.27
3. IBRD+IDA as % of Total	8.51	7.89	10.89	15.25	10.20	12.27
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	254.75	593.64	615.95	597.81	614.01	602.05
2. IMF Credit/Exports	14.83	44.55	38.52	26.56	23.57	16.13
3. Short-Term Debt/Exports	9.13	30.91	32.30	29.38	20.70	13.20
4. LT+IMF+ST DOD/Exports	278.71	669.09	686.77	653.75	658.28	631.38
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	41.13	123.56	103.80	101.06	99.33	102.04
2. IMF Credit/GDP	2.39	9.27	6.49	4.49	3.81	2.73
3. Short-Term Debt/GDP	1.47	6.43	5.44	4.97	3.35	2.24
4. LT+IMF+ST DOD/GDP	45.00	139.26	115.74	110.51	106.49	107.01
Debt Service /Exports						
1. Public & Guaranteed LT	..	15.50	11.70	8.80	15.00	12.02
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	..	0.00
3. Total Long-Term Debt Service	..	15.50	11.70	8.80	15.00	12.02
4. IMF Repurchases+Serv. Chgs.	..	3.40	10.90	10.30	9.20	7.33
5. Interest only on ST Debt	..	..	..	..	..	
6. Total (LT+IMF+ST Int.)	..	18.80	22.60	19.10	24.20	19.35

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

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 kilometer is desert. Its growth prospects include the exploitation of iron ore in the north, development of the fishing industry in and around Nouadhibou, and development of the agricultural potential of the Senegal River Valley. Iron ore, which through the mid 1980s represented the largest source of foreign exchange earnings, has seen declining earnings as a result of the world steel crisis and falling world market prices for iron ore. Fish exports have recently assumed a predominant place in foreign exchange earnings, representing 66 percent of total export earnings in 1988. The fishing industry, however, is dominated by foreign interests, and risks premature depletion of its resources. It will require substantial capital investment and human resource development to enhance its value added. The agriculture sector contributes about one third of GDP. Only 0.2 percent of the land area is suitable for agricultural production, which for some twenty years has been erratic as a result of recurrent and worsening drought. There is, moreover, a threat to the environment, deriving from deforestation, overgrazing and cultivation of marginal lands, resulting in soil erosion.

As a result of declining economic prospects in Mauritania's rural areas, there has been substantial migration to urban centers from all parts of the country, except from the Senegal Valley region where in April 1989, a border dispute eventually led to widespread urban violence in both Mauritania and Senegal and the expulsion of many long-time residents in each country back to their country of origin. About half of Mauritania's population lives in urban areas with a majority suffering from extremely low standards of living, as reflected in key social indicators. Life expectancy at birth is estimated at 45 years; infant mortality is 132 per 1,000; and only 55 percent of school-age children attend primary school and less than 20 percent of the population is literate in either of the two official languages, Arabic and French. Per capita income in 1988 was estimated at US$460.

Economic Developments and Structural Reforms

Mauritania's economic development through the mid 1980s was uneven and marked by major financial imbalances. Exogenous factors, principally droughts and the world steel market crisis, contributed significantly to the deterioration of the country's agricultural and iron ore production. However, the impact of these factors on the country's economic and financial situation was aggravated by weak economic management. In the 1970s and 1980s, the government embarked on a large public investment program financed almost entirely with external borrowing; the program channeled resources toward low-yielding projects and led to a large external debt and a heavy debt service burden. Domestic demand was sustained by an excessive growth of public expenditures, which in turn contributed to large balance of payments deficits. Price distortions and regulated markets for agricultural and industrial products discouraged the development of viable small-scale private activity. Poorly managed, overstaffed public enterprises became increasingly inefficient and accumulated heavy financial losses.

Faced with an untenable economic and financial situation, the government adopted in 1985 a comprehensive Economic and Financial Recovery Program (PREF) for 1985-88, aimed at correcting fiscal and external imbalances while laying the foundation for sustained growth and private sector development. The adjustment effort was supported by arrangements with the IMF and an IDA structural adjustment credit (SAL I), emphasizing policy reforms in seven key areas: public administration, banking, public enterprise, energy, food policy, fisheries and private sector promotion. Mauritania's adjustment efforts and indebtedness have made it eligible for the Special Program of Assistance.

Economic and Social Impact of Adjustment

During the period of implementation of the adjustment process, the macroeconomic performance of the economy was considerably better than in the preceding years. Real GDP growth rose from an average of 0.2 percent per year during 1982-84 to an estimated 3.4 percent per year during 1985-89. As a result of the adjustment policies pursued, the overall fiscal deficit on a commitment basis declined from 4.5 percent of GDP in 1985 to 0.1 percent in 1989. Mauritania's external position has also shown steady improvement, reducing food imports 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 35 percent in 1984-85 to an estimated 13.2 percent in 1989. Strict budgetary discipline reversed the consolidated government deficit (including foreign-financed investments) from -8.9 percent of GDP in 1987 to a surplus of 2.3 percent of GDP in 1989; the number of civil servants was frozen; and public investments were cut from 22.6 percent of GDP in 1985 to 10.3 percent in 1989. Interest rates were kept positive in real terms, monetary policy was restrictive and credit to the government was maintained at its 1984 level through that period.

In parallel with macroeconomic policy improvements, several key structural reforms have been put in place since 1985. Project selection and budget procedures were considerably strengthened. Price control systems were liberalized and all import licenses and quotas have been abolished and a number of key state monopolies have been eliminated. As a result of these reforms, the Mauritanian economy became more market-oriented, and more efficient in terms of public resource management. There is today much more private activity in all economic sectors especially in processing and marketing of agriculture commodities and in fisheries.

The government has recognized the particular vulnerability of certain groups to short-term adverse effects of adjustment. Food aid and food-for-work programs have been important elements in helping the most vulnerable groups in Mauritania to cope with the social cost of adjustment. Furthermore, despite budgetary constraints, the government has protected, basic social services, namely education and health. Several measures were designed to increase employment and mitigate the hardships of unemployment, especially those brought about by the implementation of specific adjustment measures such as administrative reform and the restructuring of public enterprises and commercial banks.

Medium- and Long-Term Prospects

In spite of progress achieved to date, the Mauritanian economy remains fragile, with a limited natural and human capital resource base, a high degree of vulnerability to exogenous factors, an inelastic revenue base, and an extremely heavy debt service burden. Faced with such prospects, the experience of the past years has made it clear that without macroeconomic stability and access to external financing, sustainable growth will remain out of reach. Thus, the government is formulating a development policy framework for the coming few years, emphasizing continued strengthening of public resource management, further enhancement of the enabling conditions for private sector investment and growth, and an acceleration in its program to develop the country's human resources. Further economic reforms are envisaged, including abolition of remaining monopolies, complete price liberalization and elimination of all price controls, complete trade policy reform with further reductions in tariff levels and shrinking tariff bands, and examination of labor market regulations with a view to increasing their flexibility. In the area of public resource management, policies would be designed to ensure maximum efficiency in the use of scarce public resources, and would include the introduction of a three-year rolling public investment program, reflecting economic project selection criteria, emphasizing human resource development and the provision of adequate basic infrastructure required for economic development and for recurrent expenditures for essential government services.

In the long term, sustaining the improvement in real per capita income will hinge on the ability of the government to deal effectively with the difficult problem of rapid population growth, presently 2.6 percent and likely to reach 3.1 percent in the absence of an effective population policy. Demographic growth will remain, at least for the next decade, one of the major constraints to Mauritania's development efforts.

External financing should remain on highly concessional terms. Given the high debt service ratio in Mauritania, around 35 percent in 1990/91, it is likely that the country will require continuing debt relief (about US$280 million in 1990-93) in addition to recent debt cancellations.

MAURITANIA

Mid-1988 Population (mils.)	2
1988 Per Capita GNP in US$:	480

	A. Shares of Gross Domestic Product *(from current price data)*						B. Growth Rates(% per annum) *(from constant price data)*				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.8	1.8	1.6	3.7	1.3
Net Indirect Taxes	6.2	9.4	6.1	10.5	10.2	9.0	..	..	..	..	..
Agriculture	30.2	35.0	28.5	33.1	33.8	33.7	-2.1	-0.3	1.5	-0.9	0.3
Industry	33.4	27.3	24.4	19.3	18.9	21.6	4.3	1.2	4.9	4.4	11.8
(of which Manufacturing)	3.7	..	..	..	..	..	..	..	..	..	..
Services	30.2	28.3	41.0	37.1	37.1	35.8	8.1	6.2	-0.5	3.6	2.3
Resource Balance	13.5	1.1	-29.3	-6.8	-7.7	-4.7	..	..	..	..	..
Exports of GNFS	42.2	47.5	37.3	50.1	50.8	49.3	6.9	0.4	6.0	1.8	1.7
Imports of GNFS	28.7	46.3	66.7	56.9	58.6	54.0	10.5	5.8	2.0	2.3	3.6
Total Expenditures	86.5	98.9	129.3	106.8	107.7	104.7	3.3	3.9	0.1	3.9	2.4
Total Consumption	72.6	90.2	93.1	86.3	90.0	89.4	2.7	2.6	1.9	6.1	4.8
Private Consumption	53.9	71.5	67.8	73.1	76.3	76.4	2.0	0.5	3.4	7.2	..
General Government	18.7	18.7	25.3	13.2	13.7	13.0	6.1	8.5	-4.3	0.2	..
Gross Domestic Investment	13.9	8.6	36.2	20.5	17.7	15.3	12.5	12.1	-5.3	-5.7	-9.2
Fixed Investment	..	16.2	31.3	20.2	16.4	14.1	..	7.4	-4.7	-11.7	-9.3
Changes in Stocks	..	-7.6	4.9	0.2	1.3	1.2	..	..	..	..	..
Gross Domestic Saving	27.4	9.8	6.9	13.7	10.0	10.6	-3.6	-42.0	..	-15.3	6.0
Net Factor Income	-6.5	-6.5	-5.3	-7.2	-7.3	-6.2	..	..	..	..	..
Net Current Transfers	0.0	-4.3	-4.0	-2.2	-2.2	-2.6	..	..	..	..	..
Gross National Saving	20.9	-1.0	-2.3	4.3	0.5	1.9	..	..	..	-73.5	106.6
In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	44,059	51,427	61,224	69,171	71,738	72,676	2.8	1.8	1.6	3.7	1.3
Capacity to Import	12,262	16,494	16,577	34,689	34,955	38,125	4.9	-2.5	9.7	0.8	9.1
Terms of Trade Adjustment	-983	-3,640	-4,965	0	-359	2,229	..	..	..	..	..
Gross Domestic Income	43,077	47,787	56,259	69,171	71,379	74,905	1.9	0.9	2.8	3.2	4.9
Gross National Product	40,223	48,186	58,188	64,169	66,073	67,646	3.2	1.8	1.1	3.0	2.4
Gross National Income	39,240	44,546	53,223	64,169	65,715	69,875	2.3	0.8	2.4	2.4	6.3

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	53.2	86.7	93.4	100.0	105.1	116.6	4.2	8.5	9.7	5.1	11.0
Implicit Expenditures Defl.	60.8	89.2	93.1	100.0	105.9	113.0	5.8	10.0	7.7	5.9	6.7

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.2	2.5	2.6
Labor Force	..	..	..
Gross Natl. Income p.c.	0.1	-1.6	-0.2
Private Consumption p.c.	-0.3	-1.9	0.8
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	3.8	3.2	1.3
Marginal Savings Rates:			
Gross National Saving	-223.9	-11.1	10.0
Gross Domestic Saving	-158.2	-12.0	19.0
ICOR (period averages):	..	..	14.1

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	88.9	80.0	69.3	..
Industry	3.2	5.8	9.0	..
Services	7.9	14.2	21.7	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.MET.FE	97.1	102.9	99.0	100.0	111.3	131.6	151	151	144	127	141	173
X.FOOD.FISH	19.2	93.3	104.6	100.0	94.6	88.9	43	219	276	264	284	257
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	8	1	16	17	7
Total Exports FOB	..	..	..	..	..	..	..	378	421	407	442	437

F. Merchandise Imports	1980	1985	1986	1987	1988	1989	1980	1985	1986	1987	1988	1989
Food	..	..	..	..	..	..	103	60	65	89	114	100
Fuel and energy	..	..	..	..	..	..	45	41	27	33	27	34
Other Consumer Goods	..	..	..	..	..	..	43	28	30	27	33	28
Other Intermed. Goods	..	..	..	..	..	..	70	86	77	53	49	116
Capital goods	..	..	..	..	..	..	60	81	95	70	68	52
Total Imports CIF	..	..	..	..	..	..	321	317	305	307	353	330

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	253	399	441	437	473	503
Merchandise (FOB)	196	372	418	402	438	449
Non-Factor Services	56	27	24	35	35	54
Imports of Goods & NFS	449	536	611	574	566	549
Merchandise (FOB)	321	334	400	359	349	335
Non-Factor Services	128	202	211	215	217	214
Resource Balance	-196	-137	-169	-137	-93	-46
Net Factor Income	-27	-92	-116	-89	-86	-63
(interest per DRS)	13	27	32	30	33	29
Net Current Transfers	-28	-21	-23	-21	-22	-26
(workers' remittances)	6	1	2	7	9	4
Curr. A/C Bal. before Off. Transf.	-251	-250	-308	-247	-201	-135
Net Official Transfers	117	134	115	99	105	267
Curr. A/C Bal. after Off. Transf.	-134	-116	-194	-147	-96	132
Long-Term Capital Inflow	128	98	171	99	77	181
Direct Investment	27	7	3	1	1	3
Net LT Loans (DRS data)	112	57	159	97	50	97
Other LT Inflow (Net)	-11	34	9	1	25	80
Total Other Items (net)	-32	-7	11	43	2	-333
Net Short Term Capital	-1	-5	9	9	20	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-31	-2	2	34	-18	..
Changes in Net Reserves	38	25	11	6	17	21
Net Credit from the IMF	13	1	14	27	-3	..
Other Reserves Changes	25	25	-3	-21	20	21
As Share of GDP:						
Resource Balance	-27.7	-19.2	-20.1	-14.6	-9.3	-4.5
Interest Payments	1.8	3.8	3.7	3.2	3.3	2.8
Current Account Balance	-35.4	-35.0	-36.6	-26.3	-20.0	-13.2
Memorandum Items:						
Reserves excl. Gold (mil. US$)	140	59	48	72	..	..
Reserves incl. Gold (mil. US$)	146	63	53	77	0	0
Official X-Rate (LCUs/US$)	45.91	77.09	74.38	73.88	75.26	83.05
Index Real Eff. X-R Base 1980	100.00	109.62	99.70	94.32	87.04	..
GDP (millions of current US$)	709	715	843	936	1,002	1,021

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts a/	15.7	22.5	21.8	22.8	22.1	..	22.9	11.3	12.2	13.0	..
Current Expenditures	29.0	26.9	23.4	22.5	22.0	..	27.2	23.4	22.5	-4.4	..
Current Budget Balance	-13.3	-4.6	-1.6	-0.6	-1.0	..	-21.8	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	17.0	11.4	8.0	8.3	7.9	..	3.7	6.4	32.6	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit a/	-30.3	-16.4	-7.8	-8.9	-9.5	..	..	..	..	..	..
Official Capital Grants	11.2	11.5	7.4	9.1	7.9	..	13.3	-28.8	37.0	..	..
External Borrowing (net)	17.0	-4.1	-1.0	-1.0	-2.0	..	-5.8	..	..	..	..
Domestic Non-Bank Financing	..	..	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	2.2	-1.9	-0.3	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	112	57	159	97	50	97	718	1,353	1,604	1,858	1,823	1,865
Official Creditors	110	55	155	102	50	97	584	1,217	1,471	1,734	1,712	1,757
Multilateral	27	1	43	55	32	39	126	341	414	528	531	560
of which IBRD	0	-6	4	4	-9	-10	0	53	69	91	74	65
of which IDA	4	6	12	40	29	11	38	64	79	128	152	160
Bilateral	83	54	112	47	18	58	458	876	1,058	1,207	1,180	1,198
Private Creditors	3	2	3	-5	1	0	134	136	133	123	111	108
Suppliers	2	0	3	0	0	0	68	73	74	73	64	61
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	112	57	159	97	50	97	718	1,353	1,604	1,858	1,823	1,865
IMF Credit	21	-7	5	12	-4	0	62	46	56	79	71	70
Net Short-Term Capital	-1	-5	9	9	20	..	65	108	117	120	183	197
Total incl. IMF & Net ST	132	45	173	118	66	..	845	1,506	1,777	2,056	2,076	2,132

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	3.88	4.29	4.89	4.07	3.50
2. IDA as % of Total	5.28	4.72	4.91	6.87	8.35	8.56
3. IBRD+IDA as % of Total	5.28	8.60	9.19	11.76	12.42	12.06
Share of LT Debt Service						
1. IBRD as % of Total	0.00	13.34	14.02	12.38	14.45	14.65
2. IDA as % of Total	2.00	1.06	2.00	1.35	1.72	1.77
3. IBRD+IDA as % of Total	2.00	14.40	16.02	13.74	16.17	16.42
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	260.77	335.38	360.15	416.39	374.81	364.60
2. IMF Credit/Exports	22.34	11.33	12.64	17.66	14.54	13.74
3. Short-Term Debt/Exports	23.61	26.70	26.22	26.81	37.53	38.47
4. LT+IMF+ST DOD/Exports	306.71	373.40	399.01	460.87	426.88	416.81
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	101.26	189.29	190.31	198.41	181.92	182.77
2. IMF Credit/GDP	8.67	6.39	6.68	8.42	7.06	6.89
3. Short-Term Debt/GDP	9.17	15.07	13.86	12.77	18.22	19.28
4. LT+IMF+ST DOD/GDP	119.10	210.75	210.84	219.60	207.20	208.94
Debt Service /Exports						
1. Public & Guaranteed LT	10.90	18.76	16.81	21.54	22.76	19.88
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	10.90	18.76	16.81	21.54	22.76	19.88
4. IMF Repurchases+Serv. Chgs.	3.85	4.83	4.29	3.38	2.59	2.89
5. Interest only on ST Debt	2.58	1.74	1.32	1.43	1.79	1.47
6. Total (LT+IMF+ST Int.)	17.32	25.33	22.43	26.36	27.14	24.24

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Mauritius

Mauritius is located in the Indian Ocean to the east of Madagascar with a land area of approximately 1,865 square kilometers. The population of Mauritius of about 1.1 million (1989), some 3 percent of which live on the outer island of Rodrigues, is a rich mosaic of various ethnic groups. The ethnic and political complexity contributes to the country's vitality and competitive spirit. The government functions in a system of parliamentary democracy.

Sugar has traditionally been the life-blood of the Mauritian economy and currently accounts for about 13 percent of GDP and around one-third of export earnings. However, in recent years, the economy has successfully diversified from a mono-crop culture highly dependent on sugar into manufactured exports and tourism. The principal impetus to growth has been provided by the export processing zone (EPZ) industries in the manufacturing sector, which have grown at an annual average rate of about 28 percent over the past five years and now account for about 15 percent of GDP and 60 percent of gross export earnings. Given the pleasant sub-tropical climate of the island, tourism has also expanded rapidly and earned the island the reputation of being an exclusive, year-round tourist resort.

With a per capita GNP of about US$1,900 in 1989, Mauritius has the standard of living of a middle-income developing country. Standards of nutrition, health care, and general education greatly exceed those of neighboring countries. The adult literacy rate is over 90 percent, infant mortality rate is about 24 per thousand, life expectancy at birth is about 68 years, and the basic needs of the population are extensively covered.

Recent Economic Developments

In the late 1970s and early 1980s, the Mauritian government successfully implemented a program of stabilization and adjustment aimed at tackling the structural imbalances in the economy and reforming the system of incentives. Significant improvements were made in domestic and external resource balances as a result of efficient demand management policies and export incentives. Far-reaching actions were taken to reform the incentive system. Also, credit expansion was curbed and real interest rates were made positive. The adoption of a realistic and flexible exchange rate policy, combined with fiscal and financial incentives for investment, led to an increase in production, exports, and employment. The government also adopted an outward-looking, export-led growth strategy which included eliminating quantitative restrictions on imports, initiating a program of tariff reform, and encouraging foreign private investment. To supplement trade policy, the government followed a conservative wage policy which contributed to the competitiveness of Mauritian exports. The impact of these measures was such that, between 1980 and 1986, the current account of the balance of payments changed from a deficit of 15 percent of GDP to a surplus of 5 percent; the overall fiscal deficit declined from over 9 percent of GDP to 3 percent; the annual rate of inflation fell from 30 percent to 2 percent; and gross domestic savings increased from 20 to 29 percent.

The successful implementation of the stabilization and adjustment program created economic situation in which most of the preconditions for sustained, export-led growth were satisfied. The liberalization of the exchange and trade regimes, improved resource mobilization, restrained public expenditures, restricted credit expansion, and strengthened institutional capability all contributed to providing a solid foundation upon which Mauritius was able to build. Consequently, it was poised to take full advantage of the favorable developments in the international economy in the 1980s.

Throughout this adjustment period, Mauritius was able to count on the foreign exchange earnings from sugar, which were insulated against adverse price developments in the world markets by the preferential price arrangements that Mauritius enjoys with the EC under the Sugar Protocol of the Lomé Convention. Mauritius has the largest quota among the African, Caribbean, and Pacific countries, presently fixed at 507,000 metric tons, while the price that it receives from the EC is, on average, about three times the free world market price. Mauritius has made very effective use of the resources generated from sugar to diversify its economy, both within the agricultural sector itself and away from agriculture, specifically into manufactured exports and tourism.

Financed largely by the start-up capital provided by sugar, EPZ companies have mushroomed throughout the island, greatly benefiting from the incentives provided by the government. These incentives included the duty-free import of capital goods and raw materials; tax holidays on corporate profits; tax holidays on dividends; and free repatriation of capital and dividends. Aided by these incentives, the Mauritian private sector has been able to take advantage of the preferential access to the European markets. Nearly 70 percent of EPZ exports go to the EC countries, of which France accounts for about 54 percent and the Federal Republic of Germany for about 20 percent. While the EPZ has attracted foreign investors from France, the Netherlands, Germany, Singapore, Hong Kong and India, local equity participation is as high as 50 percent, a level which is not required by law and compares very favorably with free zones from other developing economies. A number of East Asian entrepreneurs, particularly from Hong Kong, have also set up operations in Mauritius. Another major factor in EPZ growth has been the country's relatively cheap labor and the ready pool of women workers who have been drawn into the labor force.

As a result of this growth, Mauritius has been virtually able to double its per capita GNP over the last decade. The marginal national savings rate, averaging about 22 percent, is about the highest in the world. The steadily increasing private investment rate is a clear indication of the confidence and the spirit of optimism that have prevailed among the Mauritian business community in the post-adjustment era. Domestic revenue exceeds recurrent expenditures while the small overall budget deficit is financed by net drawings on foreign loans and through domestic, non-bank borrowing, with net repayments being made to the domestic banking system. There has been a sustained decline in the debt-service ratio from about 26 to about 13 percent between 1983 and 1988, owing to the outstanding performance of the export sector and the government's conservative debt strategy.

Development Issues and Economic Prospects

Mauritius is now at a phase in its developmental effort where many of the factors that have been sources of growth until now could very well evolve into potential constraints to growth or sources of economic vulnerability in the future. Mauritius has reached full employment and can no longer rely on additional growth based on the deployment of idle labor resources. GDP growth in 1989 is estimated to have slowed down to about 4 percent. The economy is already experiencing upward pressures on wages and hence on prices which, in the absence of some fundamental change in development strategy, could threaten the financial stability and the export competitiveness which have been crucial to its recent success. The existing financial system, which has served Mauritius well, may not be adequate for taking the country into the next and possibly more challenging phase of its development. Moreover, Mauritius is highly susceptible to changes in demand conditions in its export markets in the industrialized nations. The combination of outstanding economic success in the recent past and major challenges ahead suggest that the appropriate strategy at this juncture is one which sets out to consolidate past gains, while looking ahead to deal with the constraints which have already emerged or may be appearing on the economic horizon.

In agriculture, Mauritius will continue to be heavily dependent on sugar for many years to come. This necessarily implies that it will be vulnerable to adverse changes in the terms of the Sugar Protocol. While there appears to be consensus among the parties to the Sugar Protocol that it is here to stay, given the economic, political, and social ties between the EC and the ACP countries, Mauritius needs to be aware of the economic environment surrounding the Protocol. The Protocol was negotiated at a time when the EC had a sugar deficit; since then, through its pricing policies, it has become a sugar-surplus region which sells at a loss on the world market several times what it imports from all ACP countries through the Sugar Protocol. With pressures within the Community to contain its budget, and external opposition to EC agricultural subsidies, questions could arise with respect to its internal pricing policies for sugar and hence the price paid to ACP sugar exporters. Thus, while continuing to take full advantage of the Protocol, it would nevertheless be prudent for Mauritius to be prepared for a much less favorable environment for its sugar exports.

Although the government has encouraged agricultural diversification for a number of years, the strategy has so far been to attain self-sufficiency in a number of food crops, rather than to search for alternative high-value crops. Many of the food crops currently being promoted cannot be produced economically, given the conditions on the island. For Mauritius, 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 return. Mauritius already successfully produces flowers for the European market and is considered to have potential for growing tropical fruits for the same market. To move in the direction of reducing the dependence on sugar while diversifying into export crops would imply a gradual release of resources presently devoted to sugar and food crops to the establishment of, for example, a horticultural industry.

In industry, notwithstanding their rapid growth over the past five years, the EPZ industries are still fragile, with the sector being highly concentrated in wearing apparel. To reduce its vulnerability to fluctuations in demand conditions in foreign markets, Mauritius needs to diversify its portfolio of export industries, both within and outside the wearing apparel industry. The policy in the wearing apparel industry should be to continue to reap the gains from the preferential treatment conferred under the Lomé Convention in the EC market; to exploit to the fullest the U.S. quotas through negotiations, better management of quota allocations, and upgrading of products to maximize the value-added for any given quota level; and to develop markets other than the EC and the U.S. While the government is encouraging diversification away from textiles and garments, industries to be targeted are not yet well determined. While leaving private investors to make the decisions concerning the choice of industries, government efforts should be directed at providing information and guidance to potential investors on conditions in export markets, including restrictions that may affect specific industries; the labor and skill requirements of the industry; and the compatibility of the industries with other objectives, such as environmental protection.

In tourism, environmental concerns need to be addressed promptly in order to keep the island attractive for visitors. It would also be desirable to diversify into other affluent tourist markets, such as Japan and the Middle East, and to expand tourist activities. The objective should be to maximize the net foreign exchange earnings from tourism through the expansion of tourist activities with high domestic value-added.

As already mentioned, one major contributor to the recent success of the Mauritian economy has been the availability of relatively cheap labor which could be drawn upon from unemployed workers and the women who were outside the work force. However, as labor supplies become more constrained, and less elastic, future development will increasingly depend on increasing productivity, i.e. on improved technology, reallocation of labor to higher productivity sectors, greater managerial and worker efficiency, and higher levels of investment in human and nonhuman resources. This will require an upgrading of skills and thus a greater emphasis on education and manpower training.

The government will also need to take steps to liberalize the financial system so as to reduce the reliance on direct controls like credit ceilings and credit allocation guidelines to allocate financial resources across sectors. The financial system needs to move in the direction of developing a secondary market for treasury bills to create the opportunity for open market operations in the near future. For the financial system not to emerge as a constraint to growth in the real sectors in the economy, the banking and financial institutions, along with appropriate instruments of governmental monetary and credit controls, need to be in place to manage the excess liquidity generated by external sector surpluses.

To conclude, the constraints facing the economy at this juncture, particularly the trade preferences and the tightening of the labor markets, and the vulnerability of the economy to the demand conditions in export markets, suggest that the medium-term policy agenda should be to strive for a more skills-intensive, more capital-intensive, and more diversified economy. Meanwhile, the government will need to continue to pursue the sensible economic policies which have served the country so well over this recent period, particularly its trade and exchange rate policies, its wage policy and its fiscal policy.

External Capital Requirements

The economy of Mauritius is vulnerable to exogenous shocks, thereby necessitating a large stock of foreign exchange reserves as a precaution against unfavorable developments. The level of reserves will therefore need to be increased from their current level of about 5 months of imports. While it is not expected that Mauritius would need any new commercial borrowing during this period, its credit rating in the international capital markets would certainly enable it to bridge any financing gap at preferential terms. As a result of the surplus situation in which the country currently finds itself, the government has started to pre-pay some of the more expensive loans.

Mauritius' total external debt outstanding, including the IMF, short-term and private non-guaranteed debt, stood at about US$914 million at the end of 1988. Of this amount, about 75 percent was held by official creditors, with multilateral organizations accounting for about 50 percent and bilateral donors accounting for the remainder. Private creditors, dominated largely by suppliers credits, account for about 13 percent of Mauritius' debt outstanding. The Bank Group held approximately 23 percent of Mauritius' disbursed and outstanding external debt at the end of 1988, while the IMF held about 17 percent. The average terms for all lenders are estimated at 17.7 years of maturity with 2.9 years grace, with an average interest rate of around 8.2 percent, implying an average grant element of 9.3 percent. During 1988, principal and interest payments to the World Bank Group amounted to slightly over 15 percent of the total external debt service obligations, while payments to the IMF accounted for slightly over 25 percent. The favorable balance of payments outlook, and the availability of external finance from other sources at relatively softer terms, would suggest a considerable decline in the Bank's role as a major financier and, consequently, a reduction in World Bank exposure in Mauritius in the future.

MAURITIUS

Mid-1988 Population (mils.)	1
1988 Per Capita GNP in US$:	1,800

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.3	4.9	6.3	7.2	3.4
Net Indirect Taxes	16.3	15.0	15.0	17.0	17.9	16.2	..	..	..	..	..
Agriculture	13.6	17.0	10.5	12.3	10.8	10.6	..	-6.0	4.0	-7.9	-7.3
Industry	19.3	20.1	22.0	26.6	27.3	26.8	..	7.8	9.0	9.5	3.1
(of which Manufacturing)	11.9	12.8	13.0	20.0	20.8	19.5	..	5.0	11.4	11.0	3.1
Services	50.7	48.0	52.5	44.1	44.0	46.4	..	8.2	4.6	6.0	6.4
Resource Balance	-3.9	-2.1	-10.3	2.6	0.0	1.6	..	..	..	..	..
Exports of GNFS	36.4	45.6	51.2	68.5	72.0	67.1	5.0	3.3	10.2	14.2	6.1
Imports of GNFS	40.2	47.8	61.4	65.9	72.0	65.4	4.0	5.0	9.6	16.7	2.8
Total Expenditures	103.9	102.1	110.3	97.4	100.0	98.4	1.4	6.1	5.8	8.7	1.0
Total Consumption	86.8	77.2	89.5	71.4	74.5	78.0	1.4	8.2	3.8	7.2	4.3
Private Consumption	74.0	66.4	75.5	60.6	63.7	68.1	0.2	7.8	4.0	8.0	4.1
General Government	12.8	10.8	14.1	10.8	10.8	9.9	2.3	10.2	2.4	2.9	5.2
Gross Domestic Investment	17.1	24.9	20.7	26.0	25.5	20.4	5.2	-1.2	14.0	12.8	-7.4
Fixed Investment	14.3	22.1	23.3	22.1	24.7	19.5	..	-2.7	7.3	15.5	-8.8
Changes in Stocks	2.8	2.8	-2.6	3.8	0.8	0.9	..	..	..	..	..
Gross Domestic Saving	13.2	22.8	10.5	28.6	25.5	22.0	7.9	-17.6	30.3	2.4	-0.7
Net Factor Income	-0.6	0.7	-0.7	-2.3	-1.9	-1.2	..	..	..	..	..
Net Current Transfers	0.0	1.2	0.9	2.3	3.7	3.9	..	..	..	..	..
Gross National Saving	12.7	24.7	10.6	28.6	27.2	24.8	10.1	-18.0	32.5	8.7	3.2

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	9,407	11,674	14,981	22,985	24,651	25,493	2.3	4.9	6.3	7.2	3.4
Capacity to Import	4,478	6,391	7,576	15,745	17,663	18,612	5.1	0.5	13.0	12.2	5.4
Terms of Trade Adjustment	-1,114	-1,775	-1,141	0	-320	-460	..	..	..	..	..
Gross Domestic Income	8,306	9,899	13,840	22,985	24,331	25,033	2.0	3.6	7.6	5.9	2.9
Gross National Product	9,344	11,748	14,878	22,452	24,149	25,175	2.5	4.7	6.2	7.6	4.2
Gross National Income	8,240	9,973	13,738	22,452	23,829	24,715	2.2	3.4	7.5	6.1	3.7

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	63.4	97.9	99.5	100.0	109.2	123.0	3.6	15.3	6.3	9.2	12.7
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	58.1	88.2	94.8	100.0	106.2	122.8	5.5	13.7	7.8	6.2	15.7
Implicit Expenditures Defl.	62.4	99.9	100.2	100.0	107.6	125.3	6.0	14.8	6.6	7.6	16.5

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	1.6	1.8	1.0
Labor Force	..	..	..
Gross Natl. Income p.c.	0.6	1.7	6.4
Private Consumption p.c.	-1.4	6.0	3.0
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.7	1.0	1.5
Marginal Savings Rates:			
Gross National Saving	75.9	-25.7	49.5
Gross Domestic Saving	67.5	-20.3	44.1
ICOR (period averages):	..	..	3.4

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	36.8	32.2	27.9	..
Industry	25.4	24.7	24.2	..
Services	37.8	43.1	47.9	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	*Volume Index* 1980	1985	1986	1987	1988	1989	*Value at Current Prices (millions US$)* 1980	1985	1986	1987	1988	1989
X.FOOD.SUGAR	94.1	82.2	95.2	100.0	..	..	282	186	264	335	..	..
X.MAN.TEXT	..	..	..	..	..	..	82	..	..	434	..	..
X.FOOD.X	117.8	115.2	98.6	100.0	..	..	14	6	7	6	..	..
X.BEV.TEA	54.4	107.3	96.6	100.0	..	..	5	12	8	7	..	..
Manufactures	17.3	57.6	82.4	100.0	122.0	134.2	113	207	360	507	721	845
Residual	15.5	23.4	67.9	100.0	105.0	109.2	21	19	34	46	389	387
Total Exports FOB	37.6	67.3	86.7	100.0	113.5	120.9	435	430	673	901	1,110	1,232
F. Merchandise Imports												
Food	64.8	84.9	82.1	100.0	101.0	103.6	161	106	102	130	124	133
Fuel and energy	57.8	97.4	72.2	100.0	105.8	111.5	84	71	53	76	79	80
Other Consumer Goods	26.9	52.7	70.4	100.0	104.0	114.4	42	41	54	81	163	190
Other Intermed. Goods	24.1	49.1	74.3	100.0	116.3	126.5	231	236	356	501	583	671
Capital goods	22.3	33.4	54.9	100.0	127.4	113.9	96	72	118	225	165	156
Total Imports CIF	31.7	54.1	70.5	100.0	129.2	132.9	614	526	683	1,013	1,115	1,205

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	128.5	70.8	86.1	100.0	108.5	113.1
Merch. Imports Price Index	191.2	96.0	95.6	100.0	85.1	89.5
Merch. Terms of Trade	67.2	73.9	90.2	100.0	127.4	126.4

H. Balance of Payments	*US$ millions (at current prices)* 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	574	576	881	1,208	1,377	1,414
Merchandise (FOB)	434	430	670	890	999	1,026
Non-Factor Services	140	146	211	318	378	388
Imports of Goods & NFS	690	597	784	1,170	1,486	1,380
Merchandise (FOB)	516	458	614	906	1,164	1,081
Non-Factor Services	174	139	170	263	322	299
Resource Balance	-116	-21	96	39	-109	34
Net Factor Income	-23	-45	-54	-41	-44	-26
(interest per DRS)	23	28	30	33	43	44
Net Current Transfers	10	22	30	41	72	80
(workers' remittances)	..	..	0	..	0	..
Curr. A/C Bal. before Off. Transf.	-130	-45	72	38	-82	89
Net Official Transfers	11	14	20	25	21	20
Curr. A/C Bal. after Off. Transf.	-119	-30	92	63	-61	109
Long-Term Capital Inflow	68	26	27	81	146	170
Direct Investment	1	8	7	17	24	31
Net LT Loans (DRS data)	78	17	9	76	124	139
Other LT Inflow (Net)	-12	1	11	-11	-2	0
Total Other Items (net)	31	16	4	83	147	-166
Net Short Term Capital	6	-36	-29	-13	25	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	25	52	33	96	121	-166
Changes in Net Reserves	20	-12	-123	-227	-232	-113
Net Credit from the IMF	38	5	-2	-7	-47	..
Other Reserves Changes	-18	-17	-122	-220	-185	-113
As Share of GDP:						
Resource Balance	-10.3	-1.9	6.6	2.2	-5.6	1.7
Interest Payments	2.0	2.6	2.0	1.8	2.2	2.1
Current Account Balance	-11.5	-4.1	4.9	2.1	-4.2	4.3
Memorandum Items:						
Reserves excl. Gold (mil. US$)	91	30	136	343	442	518
Reserves incl. Gold (mil. US$)	113	42	151	362	463	542
Official X-Rate (LCUs/US$)	7.68	15.44	13.47	12.88	13.44	15.25
Index Real Eff. X-R Base 1980	100.00	93.12	89.89	81.70	79.49	..
GDP (millions of current US$)	1,132	1,076	1,463	1,785	1,948	2,053

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	21.9	22.4	24.1	25.7	..	26.0	14.8	26.7	24.3	..
Current Expenditures	..	23.0	20.8	21.0	23.0	..	11.4	6.7	8.5	25.6	..
Current Budget Balance	..	-1.0	1.6	3.1	2.8	..	-37.1	-86.3	..	16.6	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	3.5	3.8	4.5	4.5	..	..	-3.1	64.8	19.6	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-5.6	-3.4	-2.1	-2.6	..	-18.7	-11.7	-44.5	3.9	..
Official Capital Grants	..	1.0	1.2	0.8	0.8	..	-66.2	40.5	-19.4	14.2	..
External Borrowing (net)	..	4.3	-0.6	0.7	2.3	..	..	..	..	..	..
Domestic Non-Bank Financing	..	2.6	2.4	2.6	1.9	..	..	..	..	..	..
Domestic Bank Financing	..	-2.0	1.4	-2.0	-3.1	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	78	18	4	57	111	122	295	397	446	581	652	676
Official Creditors	31	36	13	55	80	86	154	306	363	492	533	553
Multilateral	16	25	4	15	38	41	79	187	224	283	301	312
of which IBRD	5	25	4	9	13	-7	35	117	148	193	190	182
of which IDA	1	0	0	0	0	0	20	20	20	19	19	19
Bilateral	15	11	8	40	43	46	75	119	139	209	233	241
Private Creditors	47	-18	-8	2	31	36	141	91	84	89	119	123
Suppliers	-1	0	0	2	86	91	3	1	1	3	89	93
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	4	19	13	17	24	15	22	46	57	49
Total LT	78	17	9	76	124	139	319	412	468	627	709	726
IMF Credit	46	-14	-21	-33	-41	-37	102	165	162	152	103	63
Net Short-Term Capital	6	-36	-29	-13	25	0	47	51	38	34	49	30
Total incl. IMF & Net ST	130	-33	-41	30	109	102	468	628	668	813	861	818

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	10.92	28.34	31.66	30.76	26.77	25.03
2. IDA as % of Total	6.40	4.80	4.19	3.10	2.71	2.62
3. IBRD+IDA as % of Total	17.33	33.15	35.85	33.85	29.47	27.65
Share of LT Debt Service						
1. IBRD as % of Total	10.19	19.29	27.90	32.92	20.84	20.18
2. IDA as % of Total	0.24	0.57	0.44	0.37	0.20	0.28
3. IBRD+IDA as % of Total	10.44	19.86	28.34	33.29	21.05	20.46
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	55.06	71.36	52.82	51.28	50.52	51.06
2. IMF Credit/Exports	17.59	28.55	18.23	12.41	7.34	4.40
3. Short-Term Debt/Exports	8.16	8.83	4.29	2.80	3.48	2.08
4. LT+IMF+ST DOD/Exports	80.81	108.74	75.34	66.48	61.34	57.54
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	28.15	38.29	32.00	35.12	36.40	35.33
2. IMF Credit/GDP	8.99	15.32	11.05	8.50	5.29	3.04
3. Short-Term Debt/GDP	4.17	4.74	2.60	1.92	2.51	1.44
4. LT+IMF+ST DOD/GDP	41.31	58.36	45.64	45.53	44.20	39.81
Debt Service /Exports						
1. Public & Guaranteed LT	6.00	11.39	7.23	6.21	10.12	10.09
2. Private Non-guaranteed LT	1.12	0.81	0.45	0.35	0.38	0.09
3. Total Long-Term Debt Service	7.12	12.21	7.68	6.56	10.49	10.18
4. IMF Repurchases+Serv. Chgs.	0.55	11.41	6.73	3.66	3.63	3.15
5. Interest only on ST Debt	1.40	0.66	0.35	0.21	0.21	0.22
6. Total (LT+IMF+ST Int.)	9.07	24.28	16.23	10.84	14.33	14.85

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Mexico

Between 1950 and 1974, Mexico enjoyed a remarkable period of high growth, low inflation and moderate external debt accumulation. Real growth averaged 6.4 percent, and inflation was in single digits throughout the period. This era of fiscal conservatism came to an abrupt end in the early 1970s. Rapidly expanding government involvement in the economy pushed up the rate of economic growth. However, increasing government expenditure was not matched by rising public sector revenues. At the same time, a decline in private savings incentives (real interest rates turned sharply downwards) prevented a matching increase in private savings. As a result, the inflation tax and external debt became increasingly important sources of finance. Moreover, the long period of import substitution had passes through its easy phase and increasingly became a drag on growth. The period of single digit inflation ended in 1973, the real exchange rate started to appreciate, and the accumulation of external debt accelerated above the GNP growth rate beyond 1973.

In 1976, Mexico experienced a serious, but comparatively brief financial and economic crisis, triggering a major devaluation of the Mexican peso and financial austerity measures. However, after major oil discoveries were announced the following year, the stabilization program was quickly terminated. In fact, the subsequent period was characterized by both rapidly expanding government revenues and vastly increased borrowing of the public sector. The government's share in total value added increased by almost one third, and in total investment from 33.5 percent in 1970-75 to substantially over 40 percent in later years. Not surprisingly, the real exchange rate once again started to appreciate, eroding the gains of the 1976 devaluation. This expansion was largely fueled from abroad: Mexico's external debt increased from US$16 billion to US$86 billion between 1975 and 1982.

The situation changed dramatically in 1982 when rising world interest rates and falling oil prices put an end to Mexico's increasingly expansionary policies. The refusal of external creditors to roll over Mexico's short term debt left no option but fiscal retrenchment. Mexico, which had run non-interest current account deficits in each of the preceding thirty years, suddenly needed to run surpluses on that account in every following year. The ratio of external debt to GDP increased substantially under the influence of rising interest rates and falling growth rates. The gap between the real interest rates on external debt and real GDP growth went from -6.3 percent in 1980-81 to a full +10.5 percent in 1983. Such a high difference meant that, even without a non-interest current account deficit, the debt burden would increase rapidly, simply through the compounding effect of interest on debt inherited from the past. In addition, there were substantial capital losses on external debt due to the necessary real exchange rate depreciation. Given the major decline in oil revenues and rise in real interest obligations, the real depreciation of the exchange rate was unavoidable, but it led to an increase in the external debt to GDP ratio of almost 30 percentage points during the period 1982-87.

The counterpart to the non-interest current account improvement was a sustained, large-scale fiscal adjustment effort. A primary fiscal deficit of 7.6 percent of GDP before the 1982 crisis was turned into a surplus of 5 percent in 1987 and an estimated 6.4 percent in 1988. And this was achieved while revenues from oil exports declined by more than 7 percent of GDP between 1983 and 1988, and GDP growth declined dramatically. Non-interest government expenditure was reduced from the equivalent of 34.7 percent of GDP in 1982 to about 21.9 percent in 1988. The public enterprise divestiture program was successful in closing or selling roughly 650 smaller entities, out of a total of 1155 in 1982. Mexico also undertook far-reaching structural reforms, particularly from 1985 onward.

Under a stabilization program launched in 1983, the fiscal deficit was halved, international reserves rebuilt, and the underlying rate of inflation reduced. However, in 1984 and 1985, there was some fiscal expansion and monetary relaxation. Moreover, the earthquake in late 1985 and a major terms of trade deterioration in 1986 due to falling oil prices worsened Mexico's prospects. In response, the authorities adopted a deeper and growth-oriented stabilization program in July 1986. In return for renewed monetary and fiscal austerity, this program called upon Mexico's creditors to provide additional major amounts of external finance.

The 1986 package included new elements of policy designed to eliminate structural rigidities in the economy. The most significant change was a major reorientation towards fuller integration with the world economy. Exports of manufactures, spurred by a 42 percent real exchange rate depreciation over the July 1985-December 1987 period, overtook oil exports and more than compensated for the US$7 billion in oil revenue losses. A fast and far-reaching liberalization of the trade regime expanded the tradables sector, opened it to international competition and encouraged efficiency in both exporting, and import-substitution activities. As part of this commitment to an open economic strategy, Mexico acceded to the GATT. While the full impact of this opening will not be felt for some years to come, the redirection of incentives and the restructuring toward more efficient activity have advanced significantly. For example, in agriculture, the policy reforms initiated since 1985, and especially since October 1987, have substantially reduced direct and indirect price discrimination against producers. Exchange rate policy has become more favorable to all tradeable sectors. Import barriers have been sharply reduced for major agricultural inputs such as machines, pesticides, and other high technology inputs. Export restrictions on fruits and vegetables, which represent 25 percent of crop output, have been substantially reduced, and cereal grain prices have been moved into a band of between 90 percent and 125 percent of international prices.

The key reforms in the trade regime included reductions in the coverage of tariffs and nontariff barriers. The progress has been impressive. Import licensing coverage is now less than one-quarter of what it was in June 1985, official reference prices have been completely abolished, the maximum tariff is now one-fifth and the average tariff about one-half of what they were in June 1985. Progress has gone beyond the government's original schedule and GATT commitments.

However, none of these structural changes, in and of themselves, could postpone the necessity of further retrenchment, given Mexico's sudden difficulty in accessing the international capital markets and the adverse terms of trade shocks it had experienced. As a byproduct, the severe fiscal cutbacks greatly increased the efficiency of many of the remaining government operations. Few, if any, of the many dubious large projects of the late seventies remain in the public sector investment program. But, cutting back public investments from almost 10 percent of GDP in 1982 to around 4.4 percent in 1988, clearly had costs. Government investment has a role to play in areas that heavily complement private investment and in the social sectors. Also, private investment did not initially make up for the decrease.

With lower investment on the one hand, and restrictive demand management on the other, there was no cumulative real growth between 1982 and 1988, leading to a severe decline in per capita income. Also, inflation, rather than slowing down, in fact accelerated towards the end of the period, partially in response to a sharp acceleration in the rate of nominal exchange rate devaluation made necessary by the abrupt oil price decline in 1986. The subsequent de facto targeting of the real exchange rate, together with an increase in the frequency of wage and cost adjustments, introduced an element of inherent instability into the system. This latter became fully apparent towards the end of 1987. A stock market plunge and less-than-ideal management of private debt buybacks evolving from the 1987 debt rescheduling triggered a run on the peso in October 1987. This resulted in reserve losses and, eventually, a 37 percent devaluation, fueling inflation and expectations of further exchange rate depreciations. The government responded with the Economic Solidarity Pact (PACTO), a concerted effort to bring down inflation that was running well into triple digits by end-1987.

The PACTO was negotiated in December 1987 between government, labor, farming, and business representatives. The program consisted of further tightening of fiscal and monetary policy, and renewed structural reform efforts. Trade liberalization was accelerated, credit subsidies substantially reduced, and the program of public enterprise divestiture reinforced. These measures were supplemented by a freeze of minimum wages, public sector tariffs and prices of basic goods, and—the cornerstone of the PACTO—of the nominal exchange rate against the U.S. dollar. These standstill arrangements were extended at three month intervals through the end of 1988.

The fiscal measures, backed up by the aforementioned freeze of key nominal variables, had dramatic success in reducing the rate of inflation, as the yearly consumer price index rose 52 percent in 1988, compared with 159 percent the previous year. This abrupt disinflation was accomplished without incurring the costs of a recession. Indeed, modest real output growth of 1.5 percent in 1988 was sustained. The sharply reduced level of import protection from the decision to reduce the maximum tariff to 20 percent (from 30 percent) further eased inflationary pressures, making possible a 48 percent increase in imports of competitively priced consumer and intermediate goods. At the same time, the freeze in the nominal exchange rate translated into a sharp real appreciation of 23 percent in 1988. Uncertainty about whether adequate external finance would be available to finance Mexico's rapidly growing demand for external finance, as evidenced by a swing in the current account balance from a surplus equivalent to 2.6 percent of GDP in 1987 to a deficit of 1.8 percent in 1988, fed back into higher domestic interest rates, which rose from 20 percent to over 40 percent annually in real terms ex post. The increased burden of interest payments on the public sector threatened to nullify a significant part of the improvement in the primary fiscal surplus, maintaining uncertainty high about the ultimate success of the adjustment program.

In December 1988, a newly elected Administration reached agreement on a renewal of the PACTO (now called the PECE) through the end of July 1990, but with certain important amendments. The freeze of wages, prices, and the exchange rate was relaxed. Once-off increases of up to 40 percent in public sector tariffs for fertilizers, power, and gasoline were accompanied by the end of price controls on other goods, such as steel and some agricultural items, plus a 10 percent increase in minimum wages and a resumption of exchange rate depreciation against the U.S. dollar at the rate of one peso per day. Fiscal restraint was tightened another notch, as the primary surplus rose to 8.3 percent in 1989. This was possible due to reforms in the tax system which broadened the tax base and tightened collections, as well as the sale of an additional 171 public enterprises worth US$5.2 billion. Other important structural reforms initiated included liberalization of the financial sector, including the removal of interest rate and credit controls on commercial banks, and deregulation of the road transport sector. Finally, because the outward flow of net resource transfers to service external debt of 4-5 percent of GDP annually limited investment resources available to stimulate growth, the new government initiated talks with its external creditors to achieve a long-term reduction in its commercial bank debt obligations and an infusion of new capital from private and official creditors alike.

In March 1990, Mexico and its commercial creditors implemented an agreement on restructuring US$52.7 billion of Mexico's external debt. Creditor banks chose among several options, including two debt and debt service reduction facilities, and a new money facility. The first option involved an exchange of discount bonds against existing debt at a 35 percent discount; the second option an exchange of bonds against existing debt without any discount (i.e., par bonds), but carrying a 6.25 percent annual fixed interest rate; and the third new money equal to one quarter of the amount of existing debt the creditor chose to submit under this option. The terms on this new lending included an interest rate of LIBOR plus 13/16 of a percentage point, a seven-year grace period, and a maturity of 15 years. Creditors overwhelmingly preferred the debt and debt service reduction options by a ratio of nearly 9 to 1.

All bonds are to be repaid in a single installment at the end of the year 2019. The principal is secured by the pledge of zero coupon bonds of the U.S. and Japanese Treasuries. In addition, interest payments are partially secured by a roll-over collateral account covering up to three semi-annual interest payments. The collateral funds, amounting to roughly US$7 billion, were drawn from Mexican government foreign reserves, as well as loans from international financial institutions and Japan.

Under the PECE, inflation has continued to decline rapidly to just under 20 percent last year. At the same time, the economy has shown encouraging signs of economic recovery, led by a nearly 14 percent real increase in investment. Economic output rose an estimated 2.9 percent, with balanced output growth from all sectors and an accelerating trend toward the latter half of the year. The debt reduction agreement announced in July 1989 resulted in an immediate surge in capital inflows which by the end of 1989 amounted to over US$2.5 billion, lowering domestic interest rates by 20 percentage points.

Macroeconomic and Adjustment Policies, 1990

Changing circumstances at home and abroad posed new challenges for macroeconomic management in late 1989. Internationally, the perception of a growing worldwide shortage of capital drove up foreign interest rates, adding to domestic interest rate pressures. Internally, the liberalization of certain price controls, catch-up increases in public tariffs for gasoline, electricity, and fertilizers, a strong recovery in private sector growth, and a shortage of external finance due to delays in concluding the commercial bank debt reduction agreement placed upward pressure on prices and interest rates. From a rate averaging 1.3 percent during the first 11 months of 1989, consumer price inflation surged to 3.8 percent in December and 4.8 percent in January 1990.

Moreover, uncertainty about the terms under which the PECE would be renewed began to worry investors. Finally, Mexico's slipping current account deficit, which rose from a deficit of 1.8 percent to 2.8 percent of GDP, triggered in part by a sharp slowdown in both oil and non-oil export revenues, heightened uncertainty about the sustainability of the real exchange rate. Domestic interest rates, after having declined from 57 percent to 35 percent annually during a brief period in mid-1989, began creeping upward to 47 percent by the end of the year. And Mexico's foreign reserves began to decline, falling by US$1.7 billion during the first quarter of the year.

To deal with these adverse developments, the authorities adopted a series of measures. First, fiscal policy was tightened, raising the primary surplus for the first quarter of the year 11 percent above the planned level in real terms to over 7 percent of GDP. Secondly, the conclusion of the debt reduction agreement was expected to reduce substantially outflows of foreign exchange during the remainder of the year, easing pressures on domestic capital and exchange markets. Thirdly, new structural adjustment measures slowed the expected trend growth of public spending, while substantially increasing the likely volume of net foreign capital inflows and the net foreign demand for Mexican goods and services.

In February 1990, a costly governmental crop insurance agency was placed in liquidation and the lending activities of the largest public agricultural bank severely restricted and redirected. Together, these two institutions had been generating annual losses of as much as US$1.5 billion. Deregulation of the tortilla industry and a substantial reduction in the US$1 billion annual subsidy granted to that industry was announced shortly thereafter. In April 1990, the government submitted legislation to amend the Constitution so as to permit reprivatizing the domestic commercial banks nationalized in 1982. The public sector will retain only a minority shareholding under the proposed legislation. The Mexican Congress approved the amendment in May 1990, and the measure is, at this writing, awaiting ratification by the required two-thirds of the states. In addition to yielding net sales proceeds to the government estimated at around US$4 billion (2 percent of GDP), privatization is expected to improve banking efficiency, lower potential losses to be absorbed by the government, reassure investors about the government's intention to pursue a private sector-led development strategy, and stimulate new inflows of private foreign investment as part of a plan to allow for foreign capital participation in the banking system.

Then in May 1990, the government announced that accelerated negotiations on a bilateral free trade agreement with the United States (and possibly Canada as well) would be pursued. A free trade agreement would likely increase the net demand for Mexican exportable goods and services, thus easing pressures on the current account, while strengthening the ties of the Mexican economy with the much larger North American economies, thereby improving the climate for investment. Finally, the government announced that the PECE was being extended until January 1991. Included in this extension were measures to slow the rate of devaluation from one peso to eight-tenths of a peso daily (or slightly over 10 percent annually at the current level of the exchange rate against the U.S. dollar); remove price controls on consumer electronics, shoes, heavy transport, aluminum, textiles, machine goods, petrochemicals, autos, paper, and furniture; raise gasoline and power prices by 7 percent and 26 percent respectively; and increase the minimum wage by 5 percent.

Since February 1990, domestic interest rates have declined by 14 percentage points, reflecting an easing of inflationary pressures (consumer price inflation declined to 1.5 percent in April), the confidence inspired by the new structural reforms being carried out, and reduced concerns about exchange rate viability. Economic growth slowed somewhat to a 1.5 percent annual rate in the first quarter of 1990, reflecting the tightening of aggregate demand management policies engineered by the authorities from the beginning of this year. Foreign direct investment continued to flow in at an annualized rate in excess of US$3 billion.

External Debt

Mexico's gross external (public and private) debt declined by US$6 billion during 1989 to just under US$96 billion, comparable to the level last seen in 1985. The decline occurred mainly in the areas of private guaranteed financial indebtedness (down US$4.8 billion) and in private non-guaranteed debt (down US$3.5 billion). The debt service ratio likewise has decreased in recent years from 55 percent of exports of goods and non-factor services in 1985 to 40 percent in 1989, reflecting not only substantial improvements negotiated in average debt service terms, but also the prepayment of large sums of private non-guaranteed debt and continued growth in export earnings. As a result of the just-concluded agreement on debt, Mexico's external debt burden is expected to undergo further substantial reduction over the next five years. By the end of 1989, the Bank's share of Mexico's long-term debt and debt service were 8.5 percent and 9.7 percent, respectively.

MEXICO

Mid-1988 Population (mils.)	84
1988 Per Capita GNP in US$:	1,750

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.9	6.2	0.5	1.5	2.9
Net Indirect Taxes	4.3	5.0	8.3	10.6	9.9	9.9	..	..	..	..	..
Agriculture	13.9	11.1	8.2	8.7	9.1	8.0	3.1	3.4	1.2	-1.6	2.8
Industry	27.1	29.0	32.8	35.9	35.9	32.2	8.3	7.0	0.0	1.2	2.9
(of which Manufacturing)	19.7	22.1	22.1	25.8	26.7	22.2	8.3	6.7	0.2	2.2	2.9
Services	59.1	59.9	59.0	55.4	55.0	59.8	6.9	6.1	0.8	2.3	2.9
Resource Balance	-1.9	-1.9	-2.3	7.4	2.3	1.1	..	..	..	..	..
Exports of GNFS	7.7	6.9	10.7	19.6	16.7	16.9	6.2	8.5	7.1	3.0	1.4
Imports of GNFS	9.6	8.8	13.0	12.2	14.4	15.8	6.9	9.7	-5.3	38.6	15.5
Total Expenditures	101.9	101.9	102.3	92.6	97.7	98.9	7.0	6.6	-1.5	6.1	5.4
Total Consumption	80.2	79.9	75.1	74.0	76.9	79.6	6.5	6.1	0.4	4.4	3.1
Private Consumption	73.8	71.6	65.1	64.1	66.8	69.3	6.3	5.9	0.1	5.3	3.1
General Government	6.3	8.2	10.0	9.9	10.2	10.3	8.7	7.3	2.7	-1.5	2.7
Gross Domestic Investment	20.5	20.0	27.2	18.6	20.8	19.3	8.4	7.8	-6.9	12.9	13.8
Fixed Investment	17.6	19.2	24.8	18.9	19.1	17.7	9.5	7.2	-5.2	6.4	5.1
Changes in Stocks	2.9	0.8	2.4	-0.3	1.7	1.5	..	..	..	..	..
Gross Domestic Saving	18.5	18.1	24.9	26.0	23.1	20.4	8.4	8.8	-3.5	-8.7	6.7
Net Factor Income	-2.8	-4.1	-2.9	-5.0	-4.3	-4.3	..	..	..	..	..
Net Current Transfers	0.0	0.1	0.1	0.3	0.3	0.4	..	..	..	..	..
Gross National Saving	15.7	14.1	22.1	21.2	19.0	16.5	13.4	8.2	-4.8	-7.9	8.2

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	67,314	116,217	180,053	192,935	195,912	201,570	6.9	6.2	0.5	1.5	2.9
Capacity to Import	8,100	14,018	33,533	37,740	37,855	40,373	6.7	12.3	-0.6	0.3	6.6
Terms of Trade Adjustment	233	833	12,170	0	-1,032	950	..	..	..	..	..
Gross Domestic Income	67,547	117,050	192,223	192,935	194,880	202,520	7.0	6.8	-0.6	1.0	3.9
Gross National Product	63,692	115,189	174,883	183,283	187,401	192,898	7.8	6.0	0.4	2.2	2.9
Gross National Income	63,924	116,021	187,053	183,283	186,369	193,848	7.8	6.6	-0.8	1.7	4.0

	(1987 = 100)						*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	2.2	23.2	43.1	100.0	214.2	257.0	4.6	20.3	78.2	114.2	20.0
Wholesale Prices (IFS 63)	2.1	22.5	42.4	100.0	207.8	241.2	4.0	22.3	78.6	107.8	16.1
Implicit GDP Deflator	2.5	24.0	41.8	100.0	200.5	238.2	5.8	21.1	73.6	100.5	18.8
Implicit Expenditures Defl.	2.3	23.7	42.5	100.0	202.3	237.6	5.7	20.6	75.9	102.3	17.4

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.4	2.7	2.2
Labor Force	..	..	..
Gross Natl. Income p.c.	4.3	3.7	-2.9
Private Consumption p.c.	2.9	3.1	-2.0
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.0	1.6	-10.3
Marginal Savings Rates:			
Gross National Saving	12.5	35.9	-303.2
Gross Domestic Saving	17.6	36.2	-51.0
ICOR (period averages):	..	4.3	25.1

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	49.6	41.6	36.5	..
Industry	21.9	25.8	29.0	..
Services	28.5	32.6	34.5	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FUEL	64.8	110.7	100.3	100.0	103.2	96.6	10,441	14,767	6,307	8,630	6,709	7,878
X.MAN.TEXT	..	..	..	..	..	..	..	..	169	343	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	33.5	57.8	73.8	100.0	109.1	119.1	3,030	4,978	7,116	9,907	11,616	12,738
Residual	36.9	54.7	75.8	100.0	88.0	118.5	2,040	1,919	2,439	1,776	2,332	2,197
Total Exports FOB	51.9	84.9	89.0	100.0	96.2	106.7	15,512	21,664	16,031	20,656	20,658	22,814
F. Merchandise Imports												
Food	395.2	146.6	114.6	100.0	243.0	420.9	2,449	1,082	846	768	1,922	3,508
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	145.4	102.1	91.0	100.0	135.9	153.6	11,275	8,966	7,632	8,825	12,951	15,227
Capital goods	262.0	124.4	114.3	100.0	148.8	163.9	5,174	3,165	2,954	2,631	4,031	4,669
Total Imports CIF	186.7	110.1	96.2	100.0	146.1	173.3	18,897	13,212	11,432	12,223	18,903	23,413

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	144.6	123.5	87.2	100.0	103.9	103.5
Merch. Imports Price Index	82.8	98.2	97.2	100.0	105.9	110.5
Merch. Terms of Trade	174.6	125.7	89.7	100.0	98.2	93.7

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	20,752	27,411	21,873	27,610	29,100	33,100
Merchandise (FOB)	15,511	21,663	16,031	20,655	20,700	22,800
Non-Factor Services	5,241	5,748	5,842	6,955	8,420	10,300
Imports of Goods & NFS	25,117	18,382	16,307	17,231	25,000	30,900
Merchandise (FOB)	18,896	13,212	11,432	12,222	18,900	23,400
Non-Factor Services	6,221	5,170	4,875	5,009	6,120	7,470
Resource Balance	-4,365	9,029	5,566	10,379	4,050	2,190
Net Factor Income	-6,669	-8,899	-7,703	-7,059	-7,570	-8,420
(interest per DRS)	4,580	9,382	7,676	7,691	7,590	7,935
Net Current Transfers	245	327	345	384	452	698
(workers' remittances)	139	173	180	207	264	..
Curr. A/C Bal. before Off. Transf.	-10,789	457	-1,792	3,704	-3,063	-5,530
Net Official Transfers	39	673	119	264	163	0
Curr. A/C Bal. after Off. Transf.	-10,750	1,130	-1,673	3,968	-2,900	-5,530
Long-Term Capital Inflow	10,530	-410	433	4,044	-497	3,110
Direct Investment	2,156	491	1,523	3,246	2,590	2,880
Net LT Loans (DRS data)	6,820	-25	532	3,660	-396	-518
Other LT Inflow (Net)	1,554	-876	-1,622	-2,862	-2,692	748
Total Other Items (net)	1,038	-3,451	1,152	-2,442	-3,243	3,047
Net Short Term Capital	1,042	-1,686	694	-5,047	-2,776	2,591
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-4	-1,765	458	2,605	-467	456
Changes in Net Reserves	-818	2,731	88	-5,570	6,640	-627
Net Credit from the IMF	-136	610	1,091	1,103	-358	1,700
Other Reserves Changes	-682	2,122	-1,003	-6,673	6,998	-2,327
As Share of GDP:						
Resource Balance	-2.2	4.9	4.3	7.4	2.3	1.1
Interest Payments	2.4	5.1	5.9	5.5	4.4	4.1
Current Account Balance	-5.5	0.2	-1.4	2.6	-1.8	-2.8
Memorandum Items:						
Reserves excl. Gold (mil. US$)	2,960	4,906	5,670	12,464	5,279	6,329
Reserves incl. Gold (mil. US$)	4,175	5,679	6,674	13,692	6,327	6,740
Official X-Rate (LCUs/US$)	22.95	256.87	611.77	1378.18	2273.10	2461.30
Index Real Eff. X-R Base 1980	100.00	86.26	60.41	55.59	68.64	..
GDP (millions of current US$)	194,766	184,498	129,857	139,991	172,800	195,083

I. Consolidated Public Sector	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	26.9	31.2	30.3	30.6	29.8	..	162.0	62.9	145.4	100.5	..
Current Expenditures	32.9	38.6	44.0	45.0	39.0	..	161.3	90.8	148.8	78.3	..
Current Budget Balance	-6.0	-7.4	-13.7	-14.4	-9.2	..	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	9.3	6.1	6.0	5.6	4.4	..	139.3	66.5	124.8	61.2	..
Adjustments	-1.0	-1.5	-1.1	-1.0	-1.6	..	..	..	..	..	..
Overall Deficit	-7.0	-9.0	-15.2	-16.1	-12.3	..	..	..	..	..	..

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J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	5,121	876	822	4,497	1,620	196	33,915	72,711	75,813	84,181	81,207	76,494
Official Creditors	795	807	1,510	906	978	528	4,481	8,840	12,080	15,687	16,022	16,173
Multilateral	501	729	924	387	757	728	3,189	6,017	8,177	10,380	10,333	10,753
of which IBRD	333	505	592	418	680	620	2,063	4,034	5,566	7,347	7,427	7,821
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	294	78	587	519	220	-200	1,291	2,823	3,903	5,307	5,690	5,420
Private Creditors	4,326	69	-689	3,592	642	-332	29,434	63,871	63,733	68,494	65,185	60,322
Suppliers	-52	24	66	36	5	-10	257	235	306	342	324	314
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	1,700	-901	-290	-837	-2,015	-714	7,300	15,745	15,103	14,148	7,458	4,000
Total LT	6,821	-25	532	3,660	-396	-518	41,215	88,456	90,916	98,329	88,665	80,494
IMF Credit	-134	300	723	419	-93	389	0	2,969	4,060	5,163	4,805	5,091
Net Short-Term Capital	1,042	-1,686	694	-5,047	-2,776	2,591	16,163	5,450	5,900	5,800	8,097	10,295
Total incl. IMF & Net ST	7,728	-1,410	1,948	-968	-3,264	2,462	57,378	96,876	100,876	109,292	101,567	95,880

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	5.01	4.56	6.12	7.47	8.38	9.72
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	5.01	4.56	6.12	7.47	8.38	9.72
Share of LT Debt Service						
1. IBRD as % of Total	2.73	4.13	6.76	9.55	9.01	10.24
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	2.73	4.13	6.76	9.55	9.01	10.24
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	186.21	297.66	380.98	326.61	276.01	223.97
2. IMF Credit/Exports	0.00	9.99	17.01	17.15	14.96	14.16
3. Short-Term Debt/Exports	73.03	18.34	24.72	19.27	25.21	28.64
4. LT+IMF+ST DOD/Exports	259.24	325.99	422.71	363.02	316.17	266.78
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	21.16	47.94	70.01	70.24	51.31	41.26
2. IMF Credit/GDP	0.00	1.61	3.13	3.69	2.78	2.61
3. Short-Term Debt/GDP	8.30	2.95	4.54	4.14	4.69	5.28
4. LT+IMF+ST DOD/GDP	29.46	52.51	77.68	78.07	58.78	49.15
Debt Service /Exports						
1. Public & Guaranteed LT	35.65	35.58	36.12	29.13	30.01	26.61
2. Private Non-guaranteed LT	6.55	13.06	14.62	8.15	13.05	7.21
3. Total Long-Term Debt Service	42.20	48.64	50.74	37.28	43.06	33.83
4. IMF Repurchases+Serv. Chgs.	0.62	0.68	1.73	2.16	2.81	3.39
5. Interest only on ST Debt	6.71	2.14	1.82	1.16	2.58	2.77
6. Total (LT+IMF+ST Int.)	49.53	54.79	54.29	40.93	48.45	39.99

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Morocco

Relatively few developing countries have had such a good performance as Morocco in the second half of the eighties. Moreover, if progress in the implementation of structural adjustment is continued, growth could be sustained for the nineties without any resort to exceptional financing after 1994.

The country has abundant natural resources including the world's most easily accessible phosphate reserves, vast areas of arable land, extensive coastlines well suited for tourism, and considerable maritime resources. However, much of these resources have not been adequately developed. Per capita income is still below US$900 in spite of the rapid growth of the second half of the eighties.

The uneven distribution of income and wealth and the large number of poor is another structural characteristic which represents an important obstacle to future development. Whether judged by purchasing power (one Moroccan in three is below the absolute poverty threshold) or by status indicators (adult illiteracy over 60 percent), there is strong evidence that this is an area of concern. Although government efforts have already been made in order to improve this situation, high population growth, high concentration of land ownership, and above all, insufficient and inadequately targeted social expenditures combine to perpetuate this situation.

Recent Economic Performance

After years of stabilization and structural reform, Morocco has entered a period of economic recovery where improvements are already apparent at the external and internal level. Structural adjustment in the first half of the eighties consisted of a comprehensive reform of the incentive system including an opening up of the trade regime, removal of most price controls and elimination of trade monopolies, reduction in consumer subsidies and increases in agricultural producer prices, and a major tax reform.

The country has also significantly improved most of its major macroeconomic imbalances, many of them longstanding. Internal imbalances were brought under control through large cuts in public investment, higher fiscal revenues and a major increase in domestic savings. Through a combination of real devaluation and trade reform to encourage manufactured export growth, the large current account deficits of the early eighties have been drastically reduced, in spite of large interest payments. The process of stabilization has, remarkably, been achieved without recession and with a very low inflation.

The second half of the eighties has been an exceptional period for the Moroccan economy, comparable only to that of the mid-seventies. In spite of the negative growth in 1987, the average real GDP growth in the 1985-89 period was around 5 percent per annum. The current account deficit turned around in the second half of the eighties, from a deficit of almost 8 percent of GDP in 1984 to small surpluses in 1987 and 1988, though slipping back to a deficit of 3.5 percent of GDP in 1989. The budget deficit came down from double digits to around 4.5 percent on a cash basis in 1988 and 1989. Inflation has stayed below 5 percent since 1987.

The growth which has followed the adjustment process has been accomplished with the help of a consistent improvement in terms of trade. Following the opening up of the economy and the stabilization program of the first half of the eighties, both export and import volumes have steadily increased since 1985. As a result of the improvement in the terms of trade since 1985, the value of imports has decreased from 33.7 percent of GDP in 1985 to 25.1 percent in 1988 slightly increasing to 27.1 percent in 1989. This has happened in spite of an opening up of the trade system. The drop in world oil prices and good agricultural production in all years but 1987, explains most of this drop in the import value. Imports of food have decreased from 4.0 percent of GDP in 1985 to 2.3 percent in 1988; imports of crude oil from 8.4 percent of GDP to 2.9 percent in the same period.

The remarkable performance of agriculture was also partly a result of the structural changes of the early eighties. Although good weather contributed to the recovery, average rainfall for 1988, for example, was not exceptional. An important factor was that producer prices for cereals substantially improved in the eighties and are now much closer to international prices. That changes in incentives of the early eighties were not translated into better performance until the second half of the decade is probably because of droughts in 1983, 1985, and 1987.

Government expenditures have been reduced from an average of 33 percent of GDP in the first half of the eighties to 26 percent of GDP in 1988. Although this reduction was achieved through cuts in both current and capital expenditures, capital bore the brunt of the adjustment. Since low capital expenditures were affecting the country's productive capacity, public investment was expanded to support private economic activity through the minimum required infrastructure.

Government revenues have been more stable during the adjustment. They dropped to 19 percent of GDP in 1986 when the VAT was introduced as this new tax took time to be implemented. The important increase in the 1988 revenue, to 23.1 percent of GDP, was due to the increase in the Special Import Tax (SIT) and the implementation of the VAT. The fastest expansion in 1988 was in customs duties which increased by 57 percent. The SIT was raised from 5 percent to 12.5 percent in 1988 to compensate for the loss in revenue caused by the repeal of customs' stamp duties. Revenue from the VAT increased by 20 percent in 1988 due to the strong economic growth (15 percent in nominal terms), increases in certain VAT rates, and improved tax administration.

Both the source and cost of deficit financing has changed considerably with adjustment. While more than half of the budget deficit was financed though foreign sources in 1976-82, financing gradually switched to domestic sources. Debt relief, however, remains the main source of deficit financing. In addition, the cost and composition of domestic sources has changed over the last four years. Commercial banks, through obligatory investment in Treasury bonds at concessional rates, had provided most of the domestic financing up to 1984. In 1985, time deposits were excluded from the base on which investment on Treasury bonds was calculated; in 1988, an auction-based system for Treasury bonds was established, and most fixed-rate Treasury bills were eliminated. These developments have increased the cost of commercial bank financing of the budget deficit.

Morocco has one of the lowest inflation rates in developing countries. Despite the recovery in economic activity, inflation has remained below 5 percent during the last few years. Inflation, as measured by the consumer price index, dropped from 12.5 percent in 1984 to 2.3 percent in 1988 and remained at around 3 percent in 1989. This was achieved despite the increases in minimum wages and increases in the official prices for public utilities and of the few products which remain with controlled prices.

Outstanding Issues

Difficult problems remain for both short-term stability and longer term development. In the short term, the largest inter-related problems are Morocco's large debt burden and the budget deficit. Debt to GDP in 1989 is around 90.3 percent and debt service to exports around 34 percent (after debt relief). Moreover, and in spite of the major adjustment and recovery, there has been no new money from commercial banks since 1983. The absence of new money leaves little room for manoeuver in the event of external shocks beyond the control of policy makers.

The main question is whether Morocco can achieve a 4.5 percent growth rate while bringing debt to a manageable level. While continued debt relief, through both rescheduling and reduction, is unavoidable in the next few years, the return of Morocco to a position of normalcy by the mid-1990s is feasible and desirable. The current account will need to be maintained nearly in balance for the whole decade, while debt relief drops from 6 percent of GDP in 1988/89 to negligible levels by 1994. A small but rising share of financing will need to come from direct foreign investment. The normalization of external finance is likely to require further rounds of the Paris Club reschedulings from 1990 to 1993. London Club debt has been, in principle, recently rescheduled with waivers for buyback of commercial debt. In addition, a debt/debt service reduction menu would become available once the government agrees with the IMF on an Extended Fund Facility (EFF).

On the budget side, government revenue sources remain fragile: a US$1 oil price increase results in a net loss of revenue of around US$50 million; an increase of one percentage point in LIBOR would result in more than US$100 million additional expenditures. Moreover, through a combination of adverse exogenous factors and policy slippage, the budget deficit in 1989 was 5.9 percent of GDP (before debt relief) rather than the 4.5 percent that had been anticipated. Given the impact of the budget deficit on domestic financial market and on private investment, control of its level is crucial for stability in the nineties.

As Morocco moves out of its rescheduling phase, debt relief, and therefore foreign savings, would be less available than in the 1980s. Moreover, foreign savings, including increases in foreign investment, will mainly be directed to the private sector. In order to support resumption of dynamic non-government investment, private savings which are currently financing the public sector borrowing needs will have to be redirected to the private sector. In other words, an increase in government savings is a pre-condition for achieving the domestic savings required in the 1990s. A significant portion of the public savings effort will have to be directed to the social sectors.

Longer term development also presents immense challenges. For it to emerge in the next century as a stronger, more prosperous country, specific efforts will have to focus on some key structural problems: (a) poverty and income distribution; (b) decentralization and participation; (c) private sector development; (d) advancement of women; and (e) environment and natural resource management.

While these issues must be addressed through a number of vehicles, a major concern is ensuring an adequate level of investment in human capital. Indications of overall illiteracy, for example, at 60 percent, pose serious problems to a broad-based expansion of labor intensive investment. Furthermore, while poverty is unevenly distributed in different regions, the incentive to invest outside of the main cities is constrained by the lack of availability of skilled labor.

In addition, IFC, with an office in Casablanca, is well placed to play a key role in catalyzing the emergence of dynamic industrial enterprises. Its strategy in Morocco consists of promoting the development of private ventures, which derive their competitive advantage from the geographical proximity to the EEC market and the availability of a competitively priced labor force. Its investment principally target export-oriented enterprises, such as textile and agribusiness, or import-substitution projects, such as cement. In addition, IFC has provided substantial financing to major financial intermediaries (BNDE and CIH) through syndications. It has also offered, through its foreign investment advisory services (FIAS), support to the authorities aimed at facilitating capital inflows, and proposes also to provide technical assistance for revitalizing the Casablanca stock exchange. IFC is expected to join the Bank in playing a major role in supporting Morocco's privatization effort.

MOROCCO

Mid-1988 Population (mils.)	24
1988 Per Capita GNP in US$:	830

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates (% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*65-73*	*73-80*	*80-88*	*1988*	*1989*
Gross Domestic Product, c.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.6	6.2	4.2	10.4	3.5
Net Indirect Taxes	..	5.0	7.8	8.5	7.3	6.8	..	..	2.0	5.2	7.3
Agriculture	23.4	20.8	18.4	15.2	17.1	15.5	4.8	3.1	6.6	30.6	-5.0
Industry	27.5	28.0	30.9	32.5	34.1	35.7	5.4	6.0	2.8	9.2	6.6
(of which Manufacturing)	15.7	17.3	16.8	18.0	18.3	19.3	6.1	..	4.2	8.0	6.8
Services	49.0	46.2	42.8	43.8	41.4	41.9	6.1	6.2	4.6	4.9	4.6
Resource Balance	1.3	-1.3	-10.5	-4.4	-0.3	-3.9	..	..	..	..	..
Exports of GNFS	18.2	20.8	17.4	22.4	24.8	23.2	6.2	1.3	5.6	18.2	-8.6
Imports of GNFS	16.9	22.1	27.9	26.8	25.1	27.1	7.7	7.5	1.6	3.8	6.5
Total Expenditures	98.7	101.3	110.5	104.4	100.3	103.9	5.9	7.6	3.3	7.4	6.6
Total Consumption	88.5	84.4	86.3	81.8	76.7	80.1	5.0	7.0	3.2	4.8	8.4
Private Consumption	76.5	72.7	67.9	66.2	62.1	66.2	4.9	2.5	0.5	6.6	10.3
General Government	12.0	11.7	18.3	15.5	14.6	13.9	5.5	16.0	4.7	-1.0	2.1
Gross Domestic Investment	10.3	16.9	24.2	22.6	23.6	23.8	11.0	10.0	3.7	17.1	0.8
Fixed Investment	10.3	13.5	22.2	20.0	20.4	21.4	5.6	10.4	1.0	7.9	10.4
Changes in Stock	..	3.3	2.0	2.6	3.3	2.4	..	..	..	..	..
Gross Domestic Savings	11.5	15.6	13.7	18.2	23.3	19.9	18.5	-0.8	11.7	41.3	-13.1
Net Factor Income	0.6	-1.1	-3.0	-4.1	-4.7	-5.3	..	..	..	..	..
Net Current Transfers	0.0	4.0	5.9	9.3	6.7	6.8	..	..	..	..	..
Gross National Savings	12.1	18.6	16.7	23.5	25.3	21.4	19.5	-0.1	10.8	25.8	-25.3

In millions of Dirhams (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*65-73*	*73-80*	*80-88*	*1988*	*1989*
Gross Domestic Product	33,247	82,728	127,189	157,834	174,276	180,369	5.6	6.2	4.2	10.4	3.5
Capacity to Import	7,342	22,793	23,370	35,396	43,335	40,067	6.4	-0.3	7.9	22.4	-7.5
Terms of Trade Adjustment	-706	-2,261	-2,449	0	1,512	1,830	..	..	..	..	..
Gross Domestic Income	32,541	80,468	124,740	157,834	175,788	182,199	5.6	5.9	4.6	11.4	3.6
Gross National Product	33,418	80,556	121,583	151,425	166,591	171,739	5.5	5.9	4.3	10.0	3.1
Gross National Income	32,712	78,295	119,134	151,425	168,103	173,569	5.5	2.9	2.4	11.0	3.3

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*65-73*	*73-80*	*80-88*	*1988*	*1989*
Consumer Prices (IFS 64)	55.9	89.5	97.3	100.0	102.3	..	1.9	10.1	8.1	2.3	..
Wholesale Prices (IFS 63)	52.2	91.9	99.0	100.0	104.3	108.3	2.6	8.5	9.0	4.3	3.9
Implicit GDP Deflator	58.3	86.6	95.2	100.0	103.6	108.0	3.3	8.5	7.7	3.6	4.3
Implicit Expenditure Deflator	59.2	91.4	97.2	100.0	102.3	107.2	3.9	8.8	7.2	2.3	4.8

D. Other Indicators Growth Rates (% p.a.)	*65-73*	*73-80*	*80-88*
Population	2.7	2.6	2.3
Labor Force	5.5	4.8	3.5
Gross National Income p.c.	2.3	2.9	2.4
Private Consumption p.c.	1.7	2.5	0.5
Import Elasticity:			
Imports (G+NFS) / GDP mp	1.4	1.3	0.4
Marginal Savings Rates:			
Gross National Savings	19.5	0.2	55.8
Gross Domestic Savings	18.5	-1.4	47.7
ICOR (period averages)	3.7	4.3	5.4

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*
Agriculture	61.3	53.9	45.6	38.0	..	..
Industry	14.9	19.4	25.0	28.0	..	..
Services	23.8	26.7	29.4	34.0	..	..
Total	100.0	100.0	100.0	100.0	..	..

E. Merchandise Exports	1980	1985	1986	1987	1988	1989	1980	1985	1986	1987	1988	1989
Agriculture	98.2	97.7	102.9	100.0	116.0	123.0	751	599	787	853	1,055	1,067
Phosphate Rock	125.5	113.1	104.8	100.0	109.8	93.2	754	475	409	366	506	489
Phosphoric Acid	28.8	65.7	75.7	100.0	122.6	35.1	199	309	330	426	569	171
Fertilizers	23.6	110.0	99.5	100.0	241.9	216.0	38	119	100	106	321	306
Other Manufactures	42.5	68.6	78.5	100.0	103.8	114.1	381	474	650	871	979	1,072
Other Exports	141.7	111.0	100.4	100.0	113.9	116.6	292	169	135	160	194	220
Total Exports, FOB	72.7	87.4	90.7	100.0	119.0	101.1	2,414	2,145	2,410	2,781	3,624	3,326
F. Merchandise Imports												
Food	89.8	90.1	86.1	100.0	84.9	88.2	723	510	478	478	514	573
POL and Other Energy	71.0	93.5	91.9	100.0	103.0	109.8	1,011	1,079	599	740	635	806
Other Consumer Goods	84.8	72.5	85.3	100.0	99.6	110.0	336	275	383	493	532	586
Other Intermed. Goods	73.0	81.7	82.0	100.0	118.8	113.8	1,406	1,345	1,450	1,638	2,060	2,038
Capital Goods	114.1	95.9	113.3	100.0	112.6	147.0	809	652	911	884	1,077	1,402
Total Merch. Imports, CIF	81.4	87.4	89.8	100.0	107.0	113.0	4,284	3,861	3,821	4,232	4,818	5,404

G. Terms of Trade (1987=100)	1980	1985	1986	1987	1988	1989
Export Price Index	56.2	106.2	104.1	100.0	107.5	120.1
Import Price Index	58.5	125.7	109.5	100.0	104.4	114.8
Terms of Trade	96.1	84.5	95.0	100.0	103.0	104.7

H. Balance of Payments	1980	1985	1986	1987	1988	1989
Exports of Goods & Services	3,273	3,185	3,616	4,234	5,445	5,330
Merchandise (FOB)	2,414	2,145	2,410	2,781	3,624	3,326
Non-factor services	858	1,040	1,205	1,453	1,821	2,004
Imports of Goods & Services	5,247	4,341	4,692	5,063	5,518	6,224
Merchandise (fob)	3,770	3,513	3,477	3,850	4,338	5,404
Non-factor services	1,478	828	1,215	1,212	1,180	820
Resource Balance	-1,975	-1,156	-1,076	-828	-73	-894
Net Factor Income	-562	-766	-689	-767	-1,040	-1,209
(Total Interest) 1/	708	690	824	754	907	1,175
Net Current Transfers	1,116	1,063	1,549	1,759	1,481	1,556
(workers' remittances)	1,054	967	1,398	1,587	1,303	1,333
Curr. A/C Bal. before Off. Transf.	-1,420	-859	-216	164	368	-548
Net Official Transfers	98	300	17	0	90	0
Curr. A/C Bal. after Off. Transf.	-1,323	-559	-199	164	458	-548
Long Term Capital Inflow	1,314	697	714	700	659	645
Direct Investment	110	20	12	57	73	65
Net LT Loans (DRS data)	1,205	676	702	643	586	580
Other LT inflows (Net)	0	0	0	0	0	0
Total Other Items (Net)	-300	-155	-156	-599	-836	-27
Net Short-term Capital	-124	168	134	-218	0	120
Capital Flows N.E.I.	-126	-291	-223	-337	-789	-147
Errors and Omissions	-50	-31	-66	-44	-46	0
Changes in Net Reserves	308	17	-359	-265	-282	-70
Net Credit from IMF	152	73	-287	-108	-79	-67
Other Reserve Changes	156	-56	-73	-157	-203	-2
As shares of GDP:						
Resource Balance	-10.5	-9.0	-6.3	-4.4	-0.3	-3.9
Interest Payments 2/	3.3	3.8	3.7	3.3	3.7	4.7
Current Account Balance	-7.5	-6.7	-1.3	0.9	1.7	-2.4
Memorandum items:						
Internat'l Reserves	399	115	211	411	547	488
Reserves incl. Gold	814	345	486	752	836	770
Official X-Rate (LCU/US$)	3.94	10.06	9.10	8.36	8.21	8.49
Index Real eff.X-R Base 80	100.00	74.12	70.87	68.50	67.25	..
GDP (millions,current US$)	18,820	12,870	16,952	18,881	21,986	22,946

Notes:

1/ Total interest paid on MLT, IMF and short-term debt per DRS.

I.Central Government Budget	*Share of GDP (%)*						*Growth Rates (%)*				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1985*	*1986*	*1987*	*1988*	*1989*
Current Receipts	20.5	20.7	18.9	20.7	23.1	..	14.0	9.0	12.3	27.1	..
Current Expenditures	21.2	22.2	19.7	19.1	19.7	..	14.7	5.6	-1.0	18.1	..
Current Budget Balance	-0.7	-1.6	-0.8	1.7	3.4	..	..	..	..	..	..
Capital Expenditures	9.3	7.2	3.6	6.1	6.5	..	2.4	-40.1	71.5	22.3	..
Changes in Arrears	1.0	1.0	-0.4	-0.4	-1.4	..	-61.5	-140.2	-14.5	-314.1	..
Overall Deficit (cash basis)	-9.0	-7.7	-4.8	-4.8	-4.5	..	..	..	..	..	..
Offical Capital Grants	0.5	1.9	0.1		0.4	..	1704.3	-94.4	..	..	..
External Borrowing (net)	4.0	1.0	-0.2	0.0	1.3	..	-74.4	-128.9	113.4	4853.1	..
Dom. Non-Bank Financing	0.8	1.3	1.9	3.3	1.4	..	6282.1	70.6	78.0	-51.4	..
Domestic Bank Financing	3.7	3.5	3.0	1.4	1.4	..	107.3	3.2	-52.0	9.7	..

J. External Capital Flows, Debt & Debt Burden Ratios	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Public & Publicly Guaranteed LT	1,155	645	636	599	540	580	8,436	13,833	15,734	18,023	18,663	19,738
Official Creditors	744	432	477	422	384	459	4,557	9,720	11,556	13,684	14,060	15,087
Multilateral	108	302	374	252	253	240	864	2,020	2,799	3,660	3,627	3,768
of which IBRD	35	220	254	241	227	183	539	1,288	1,859	2,558	2,574	2,686
of which IDA	1	0	-1	-1	-1	-1	39	43	42	41	41	40
Bilateral	636	130	104	171	130	219	3,694	7,699	8,758	10,024	10,433	11,319
Private Creditors	410	213	159	177	157	121	3,879	4,114	4,178	4,339	4,603	4,651
Suppliers	-9	21	7	-4	5	4	315	300	269	229	185	157
Financial Markets	419	192	152	181	152	116	3,564	3,813	3,909	4,110	4,418	4,494
Private Non-guaranteed	50	31	66	44	46	0	150	200	321	372	200	200
Total Long Term Debt	1,205	676	702	643	586	580	8,586	14,033	16,055	18,395	18,863	19,938
IMF Net Credit	152	73	-287	-108	-80	-67	317	1,190	1,026	1,071	937	677
Net Short-Term Capital	0	0	0	0	0	-19	775	1,066	1,063	625	119	100
Total incl. IMF & Net ST	1,357	749	416	535	507	493	9,678	16,289	18,145	20,092	19,919	20,715

Bank and IDA ratios:	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Share of Total LT DOD						
1. IBRD as % of Total	6.28	9.18	11.58	13.91	13.64	13.47
2. IDA as % of Total	0.46	0.30	0.26	0.22	0.22	0.20
3. IBRD+IDA as % of Total	6.73	9.48	11.84	14.13	13.86	13.67
Share of Total LT DSR						
1. IBRD as % of Total	6.44	16.33	17.49	26.79	27.19	19.89
2. IDA as % of Total	0.04	0.07	0.07	0.08	0.07	0.05
3. IBRD+IDA as % of Total	6.48	16.41	17.56	26.87	27.26	19.94
DOD to Exports Ratios:						
1. Long-Term Debt/Exports	196.75	336.73	319.24	315.14	278.70	298.17
2. IMF Credit/Exports	7.26	28.55	20.41	18.35	13.84	10.12
3. Short-Term Debt/Exports	17.76	25.58	21.14	10.71	1.76	1.50
4. LT+IMF+ST/Exports	221.77	390.86	360.79	344.20	294.30	309.79
DOD to GDP Ratios:						
1. Long-Term Debt/GDP	45.62	109.04	94.71	97.42	85.79	86.89
2. IMF Credit/GDP	1.68	9.25	6.05	5.67	4.26	2.95
3. Short-Term Debt/GDP	4.12	8.28	6.27	3.31	0.54	0.44
4. LT+IMF+ST/GDP	51.42	126.56	107.04	106.41	90.60	90.28
Debt Service/Exports:						
1. Public & Guaranteed LT	26.88	24.15	25.80	21.39	20.37	28.08
2. Private Non-guaranteed LT	0.83	0.42	0.74	0.69	0.59	0.60
3. Total LT Debt Service	27.71	24.58	26.53	22.07	20.96	28.67
4. IMF Repurchases + S Charge	2.26	5.70	8.27	6.59	4.45	4.81
5. Interest only on ST Debt	1.78	2.56	2.11	1.07	0.18	0.16
6. Total (LT+IMF+ST Int.)	31.75	32.83	36.91	29.73	25.59	33.65

Mozambique

At the time of Independence in 1975, Mozambique's economy was greatly dependent on South Africa and Rhodesia as receipts from the provision of transportation services and from the remittances of Mozambican workers employed in South Africa helped offset a persistent and chronic deficit on external trade. These characteristics meant that Mozambique was highly vulnerable to a series of exogenous shocks from which the economy has suffered in the post-Independence period. In addition to the climatic problems and shifting terms of trade that have affected many other countries in Africa, Mozambique was seriously affected by the exodus of 90 percent of the Portuguese settlers which began just before independence and continued into the post-Independence period, and by the increasing instability and turmoil in the Southern Africa region. The resulting insecurity caused serious disruptions in production, marketing and transportation, and destruction of essential social and economic infrastructure which were reflected in slow economic growth.

Inappropriate government policies also contributed to poor economic performance. Rigidities in the pricing and marketing system, combined with a concentration of resources on the state sector severely constrained agricultural and industrial production. The state also became increasingly involved in external trade and in the administrative allocation of foreign exchange while maintaining the exchange rate at a level which severely undervalued foreign resources. The increasing role of administrative allocation throughout the economy and the extreme scarcity of skilled manpower led to much inefficiency in the use of resources.

The combination of severe exogenous shocks and inappropriate domestic policies was disastrous for the Mozambican economy. After an initial deterioration immediately after Independence, the economy recovered a little between 1977 and 1981 but then deteriorated again and, by 1985, real GDP had fallen to around two-thirds of the 1973 level, and to around 50 percent in per capita terms.

Economic Rehabilitation, 1987-89

Prompted by the serious deterioration of the economy, the government launched a comprehensive Economic Rehabilitation Program (ERP) in January 1987 intended to deal with the structural problems and widespread distortions in the economy. The global objectives of the ERP were to reverse the decline in production, reduce substantially domestic financial imbalances, enhance efficiency and establish the conditions for a return to higher levels of economic growth.

Given the extent to which the economy was affected by the 1982-85 fall in output and the widespread destruction of infrastructure caused by the security situation, economic recovery was the first priority of the ERP. To achieve this objective, the ERP focused on restoring financial incentives at the producer level, and diminishing the degree of administrative control over economic activity and creating a more market-based economy. Restoration of financial incentives was achieved mainly through exchange rate adjustment and was accompanied by major changes in pricing and distribution policy. Overall, the metical was devalued about 95 percent in U.S. dollar terms, from Mt. 39 per U.S. dollar at the beginning of 1987 to Mt. 830 per U.S. dollar at the end-1989.

Fixed prices of goods and services were raised substantially, and increases in conditioned (markup-regulated) prices were permitted without prior approval and subject only to an ex-post review. Moreover, the number of products subject to fixed prices was reduced significantly from 46 product groups in 1986 to 17 by end-1989, with the agricultural products with fixed prices being freed from all control or being moved to the minimum price system, and the industrial products being moved to the conditioned price list. The minimum price system under which the government fixes a floor price at the producer level, was initiated in 1989. By end-1989, the minimum price system included nine product groups. As a result, the products subject to fixed prices accounted for less than 30 percent of GDP by end-1989 compared to about 70 percent in 1987. In parallel with the exchange rate and price adjustments, the government opened up domestic trade, allowing increased competition among trading corporations and permitting enterprises to trade directly with other enterprises in domestic and international markets. In particular, private enterprises have been permitted to participate in most trading activities previously reserved to public corporations.

The second key objective of the ERP was to reduce domestic and external imbalances. This was a long-term objective in many respects given the nature of the existing imbalances and the already low level of per capita income which effectively precluded drastic cuts in aggregate consumption aimed at reducing imbalances. Nevertheless, substantial fiscal adjustment was achieved. The revenue base was strengthened through tax reforms and improvements in tax administration with the result that budgetary revenues rose from 13.3 percent of GDP in 1987 to 23.8 percent in 1989. Recurrent expenditure was contained and steps were initiated to improve the financial discipline of the public enterprises. Through these measures the current budget deficit fell from 12 percent of GDP in 1986 to 1.4 percent of GDP in 1989 while the overall deficit declined from 15.3 percent of GDP in 1986 to 10.2 percent in 1989. To reduce inflationary pressures stemming from the budgetary deficit, domestic bank financing of the government budget was reduced from 12 percent of GDP in 1986 to 0.1 percent in 1989. Money and credit policies were aimed at reducing the overhang of excess liquidity in the economy and improving the efficiency of credit utilization. Interest rates were raised sharply, though they remained negative in real terms. In general, monetary and credit aggregates remained within the programmed ranges, with the benchmark for public sector borrowing from the banking system being observed.

Externally, the desired reduction in imbalances was constrained by the key role of imported consumer and capital goods in the ERP strategy. Increasing the supply of both commodities was viewed as crucial for restoring the capital infrastructure and providing the incentive goods that were the necessary complements to the reform of financial incentives. But, as domestic production could not increase sufficiently, imports of consumer and capital goods were accorded a fundamental role by the ERP. As a consequence, imports rose substantially during the 1987-89 period, and although there was also a substantial recovery in exports, the current account deficit (before grants) rose from 15.1 percent of GDP in 1986 to 59 percent in 1989. This increase was accompanied by impressive progress in mobilizing external assistance. Aggregate grants and loan inflows on highly concessional terms totaled US$671 million in 1989, representing an increase of 35 percent over the 1986 figure.

The implementation of the ERP had a significant impact on the economy in 1987-89, despite the continuing dislocations in the countryside. The 1982-85 decline in GDP was reversed, with GDP increasing by 4.4 percent a year on average from 1987 to 1989. This positive growth rate reflected a substantial rise in the agricultural production of the family and private commercial sectors resulting from the improved pricing incentives and the increased flow of consumer goods, and a recovery in light industrial activity as a result of increased imports of inputs and spare parts. Increased aid flows, meanwhile, made possible a rise in per capita consumption and the maintenance of investment levels. As a result of the exchange rate adjustments, together with the freeing of many product prices and the adjustment of fixed prices, consumer prices increased sharply in 1987 by 163 percent, but the rate of inflation decelerated considerably to 55 percent in 1988 and 42 percent in 1989.

Despite progress made since 1987, Mozambique continues to face a number of structural problems and constraints to growth. Agricultural production still remains far below the level achieved in 1982, due to the continued rural dislocation, insecurity, and remaining pricing and marketing rigidities; industrial facilities and basic infrastructure need rehabilitation and financial restructuring, and enterprise operations suffer from shortage of managerial and technical skills; public finances continue to be largely dependent on external aid, and affected by the growing burden of external debt servicing; the rate of inflation remains high; and shortages of freely available foreign exchange, in conjunction with growing demand for imports, are leading to continuous pressures on the exchange rate. Both in recognition of the progress already achieved and in the light of continuing problems and constraints, the government remains firmly committed to the ongoing process of reform, the next phase of which is elaborated below.

Economic and Social Rehabilitation, 1990-92

The adjustment program over the next three years continues to aim at reducing domestic and external financial imbalances and establishing the basis for sustained growth, with priority given to broad-based rural development and increased focus on poverty alleviation. Recognizing the importance of poverty alleviation as one of the central concerns of the ERP, the government has indicated that the program would be renamed the Economic and Social Rehabilitation Program (ESRP). In addressing the specific poverty concerns of the two-thirds of the population which are estimated to live in absolute poverty, the government has identified three priorities: (i) creating employment opportunities for the poorest; (ii) providing a "safety net" of direct and indirect income transfers for those poor households which remain beyond the scope of strategies designed to stimulate growth; and (iii) establishing a comprehensive and prioritized expenditure program which would integrate all poverty reduction programs.

The government recognizes that continuing flexible management of the exchange rate will be central to restoring adequate economic incentives and strengthening the external accounts. Policies are aimed at attaining an exchange rate that will allow a further reduction in the scope of administrative allocations in the exchange and trade system, and permit greater reliance on appropriate macroeconomic policies rather than administrative controls to manage the balance of payments. The government has initiated a program to allow a limited number of products to be imported without administrative restriction. Implementation began in October 1989 and during 1990-92, it is anticipated that this program will be expanded significantly to include an increasingly broader product range.

Pricing policies continue to aim at reducing direct price controls so as to restore progressively the role of market mechanisms in the allocation of goods. In agriculture, pricing and marketing reforms will continue to aim at stimulating production and improving the incomes of rural producers. In industry, policy reform will be geared toward improving the efficiency of resource use, and eliminating the operating losses of enterprises. In the transport sector, the government will attempt to eliminate the bottlenecks which have hindered domestic agricultural trade and to improve the provision of long-haul cargo transport. The transport tariff structure will be reviewed and the government is also encouraging private sector participation in road transport.

Throughout the 1990-92 period, the government plans to continue to adopt stringent monetary and credit policies and to strengthen the government's fiscal position. The rate of credit expansion will be moderated by containing the growth of domestic liquidity. Interest rates are now positive in real terms. In fiscal policy, measures will concentrate on reducing the growth rate of expenditures below that of GDP and prioritizing expenditures. Key measures to improve public expenditure management include the preparation of a three-year investment program and an overall financial plan, taking into account all available resources and proposed expenditures.

The impact of the reform program on economic growth is especially difficult to assess in Mozambique's special circumstances. GDP growth is expected to be higher in 1990-92, with a strong production response coming from those agricultural areas where the security problems are of minor importance. The principal effect of the ESRP will be seen in the reactivation of the rural economy, where substantial increases in income are anticipated as production increases and as the agricultural terms of trade improve. Even with adverse price effects stemming from the devaluations, particularly for consumer goods and imported inputs, rural purchasing power should increase significantly. While in some areas of the country this improvement will be tempered by the security difficulties, there will in general be a substantial redistribution of income in favor of the rural areas.

A partial recovery of exports is expected, but only to levels that by the end of 1992 will still be well below those of the early 1980s. Cashew, copra and seafood exports are assumed to increase rapidly, but there are obstacles, resulting largely from the security problems, to the expansion of the plantation crop exports of tea and sugar. Some growth of imports over the 1990-92 period is necessary to support economic recovery by providing consumer goods as incentives to stimulate agricultural production, by meeting the emergency food requirements, and by facilitating the required rehabilitation expenditures. As a result, the trade balance is projected to deteriorate throughout the period, despite import values growing at only about half the rate for exports.

Consequently, external balance will remain dependent on substantial resource flows from abroad. Even by 1992, the external financial position will remain difficult, and heavily reliant on foreign assistance. In addition, such assistance must be either grants or highly concessional credits if Mozambique's long term debt situation is to improve at all. The recent Consultative Group held in Paris in November 1989 provided broad support for the ESRP program, and pledges suggested that the required external resource inflows for 1990 would be met.

In view of the country's exceptional circumstances, several of Mozambique's creditors have either cancelled part of the debt owed by Mozambique or are providing grants to cover debt service payments. The government is also seeking to reschedule its debt with the Paris Club and to reach agreement on a commercial debt buyback with the London Club.

MOZAMBIQUE

Mid-1988 Population (mils.)	15
1988 Per Capita GNP in US$:	100

	A. Shares of Gross Domestic Product *(from current price data)*						B. Growth Rates(% per annum) *(from constant price data)*				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	-2.7	5.6	3.2
Net Indirect Taxes	..	..	12.5	10.0	12.2	14.5	..	..	..	..	..
Agriculture	..	..	47.1	57.8	57.2	55.1	..	..	0.2	7.2	1.8
Industry	..	..	23.9	19.2	18.8	18.8	..	..	-6.2	5.0	5.5
(of which Manufacturing)	..	..	..	..	..	..	..	..	..	..	..
Services	..	..	16.5	12.9	11.7	11.6	..	..	-7.6	-1.2	6.3
Resource Balance	..	..	-18.4	-33.5	-47.9	-57.3	..	..	..	..	..
Exports of GNFS	..	..	16.5	11.6	15.1	16.2	..	..	-13.1	7.8	19.9
Imports of GNFS	..	..	34.9	45.0	63.1	73.5	..	..	-2.1	6.0	14.6
Total Expenditures	..	..	118.4	133.5	147.9	157.3	..	..	-1.1	5.5	5.6
Total Consumption	..	..	99.5	109.7	115.5	123.9	..	..	-0.9	2.5	6.4
Private Consumption	..	..	76.2	88.5	93.4	98.9	..	..	0.1	0.6	3.7
General Government	..	..	23.3	21.2	22.1	25.0	..	..	-4.1	10.3	16.7
Gross Domestic Investment	..	..	18.9	23.8	32.5	33.5	..	..	-1.8	19.7	2.6
Fixed Investment	..	..	18.9	23.8	32.5	33.5	..	..	-1.8	19.7	2.6
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	..	0.5	-9.7	-15.5	-23.9	..	..	..	..	..
Net Factor Income	..	..	-1.3	-14.1	-19.6	..	..	..	..	..	..
Net Current Transfers	..	..	-1.0	0.0	4.7	5.1	..	..	..	..	..
Gross National Saving	..	..	-1.9	-23.8	-30.4	..	..	..	..	..	..

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	..	520	428	452	467	..	..	-2.7	5.6	3.2
Capacity to Import	..	..	100	50	49	52	..	..	-10.5	-1.1	5.4
Terms of Trade Adjustment	..	..	-25	0	-4	-12	..	..	..	..	..
Gross Domestic Income	..	..	495	428	448	454	..	..	-2.1	4.5	1.5
Gross National Product	..	..	514	368	372	..	..	..	-4.6	1.1	..
Gross National Income	..	..	488	368	368	..	..	..	-3.9	-0.1	..

			(1987 = 100)				*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	15.0	36.0	40.7	100.0	146.0	204.1	..	..	32.4	46.0	39.8
Implicit Expenditures Defl.	15.3	32.0	33.5	100.0	161.9	235.3	..	..	32.2	61.9	45.3

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.3	2.6	2.7
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	-6.4
Private Consumption p.c.	..	..	-2.6
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	0.8
Marginal Savings Rates:			
Gross National Saving	..	..	84.9
Gross Domestic Saving	..	..	105.6
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	87.4	85.8	84.5	..
Industry	5.5	6.5	7.4	..
Services	7.1	7.7	8.1	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	*Volume Index* 1980	1985	1986	1987	1988	1989	*Value at Current Prices (millions US$)* 1980	1985	1986	1987	1988	1989
X.FOOD.X	261.8	52.1	52.1	100.0	114.7	105.0	65	12	17	31	27	21
X.FOOD.FISH	102.7	110.9	110.9	100.0	101.4	112.8	32	33	38	40	47	39
X.BEV.TEA	4347.8	260.9	217.4	100.0	204.3	208.7	29	2	1			
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	537.6	105.9	85.5	100.0	112.9	134.4	155	30	23	26	29	41
Total Exports FOB	325.7	92.2	85.0	100.0	107.8	105.5	281	77	79	97	103	101
F. Merchandise Imports												
Food	50.0	71.9	90.0	100.0	71.8	73.7	108	121	149	168	172	178
Fuel and energy	176.7	68.0	93.5	100.0	76.7	82.0	220	75	54	72	61	68
Other Consumer Goods	173.6	85.6	132.8	100.0	89.6	96.2	95	45	82	68	95	102
Other Intermed. Goods	105.0	78.8	98.9	100.0	104.4	111.8	..	134	..	..	..	..
Capital goods	159.5	53.1	81.0	100.0	150.6	161.6	153	49	87	118	138	145
Total Imports CIF	113.6	71.8	95.5	100.0	94.7	100.7	800	424	543	625	715	775

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	89.4	86.2	96.5	100.0	99.1	90.9
Merch. Imports Price Index	112.6	94.4	90.9	100.0	108.7	112.8
Merch. Terms of Trade	79.4	91.3	106.2	100.0	91.2	80.5

H. Balance of Payments	*US$ millions (at current prices)* 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	399	143	148	176	189	187
Merchandise (FOB)	281	77	79	97	104	101
Non-Factor Services	118	66	69	79	85	86
Imports of Goods & NFS	844	482	593	682	778	849
Merchandise (FOB)	720	381	488	563	635	698
Non-Factor Services	124	100	104	119	143	151
Resource Balance	-445	-339	-444	-506	-590	-662
Net Factor Income	47	-77	-178	-170	-96	-155
(interest per DRS)	0	20	31	14	15	19
Net Current Transfers	-25	-25	0	0	59	65
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-423	-440	-622	-676	-627	-752
Net Official Transfers	56	139	213	304	364	380
Curr. A/C Bal. after Off. Transf.	-367	-301	-409	-372	-263	-372
Long-Term Capital Inflow	364	143	-52	-83	-146	-17
Direct Investment	0	0	0	0	0	0
Net LT Loans (DRS data)	0	365	229	409	148	230
Other LT Inflow (Net)	364	-222	-280	-492	-293	-247
Total Other Items (net)	-30	137	484	544	489	429
Net Short Term Capital	0	150	0	0	0	47
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-30	-13	484	544	489	382
Changes in Net Reserves	32	21	-24	-89	-80	-41
Net Credit from the IMF	0	0	0	-15	-25	-16
Other Reserves Changes	32	21	-24	-73	-55	-24
As Share of GDP:						
Resource Balance	-18.4	-10.0	-10.7	-34.4	-46.9	-57.3
Interest Payments	0.0	0.6	0.7	1.0	1.2	1.6
Current Account Balance	-17.5	-13.0	-14.9	-46.0	-49.9	-65.1
Memorandum Items:						
Reserves excl. Gold (mil. US$)	..	..	..	..	..	..
Reserves incl. Gold (mil. US$)	..	..	..	..	..	..
Official X-Rate (LCUs/US$)	32.40	43.18	40.43	290.73	524.65	745.00
Index Real Eff. X-R Base 1980	..	..	..	..	..	..
GDP (millions of current US$)	2,414	3,395	4,173	1,471	1,257	1,154

I. Budget (specify level)	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Total Revenue	19.6	12.8	13.2	16.0	19.8	23.8	..	15.7	210.4	90.5	..
Current Expenditures	18.1	16.2	25.4	24.7	22.8	25.2	..	28.9	149.1	42.4	..
Current Budget Balance	1.5	-3.4	-12.2	-8.7	-3.0	-1.4	..	46.4	24.3	-28.3	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	11.2	4.5	5.6	18.3	21.2	22.5	..	38.8	256.8	56.7	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-9.7	-7.9	-17.8	-27.0	-24.2	-23.9	..	44.6	251.2	52.2	..
Official Capital Grants	2.7	2.0	2.3	14.9	13.9	16.8	..	30.0	1530.0	44.3	..
External Borrowing (net)	3.0	3.4	3.5	3.6	8.0	16.7	..	15.7	159.3	245.8	..
Domestic Non-Bank Financing	3.9	-0.8	0.1	..	1.3	..	..	..	..	..	..
Domestic Bank Financing	..	3.2	12.0	5.8	1.8	0.1	..	45.7	24.4	-87.2	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	0	351	186	381	138	220	0	2,683	3,015	3,778	3,800	3,970
Official Creditors	0	294	132	364	138	221	0	1,882	2,085	2,908	3,054	3,235
Multilateral	0	5	33	76	50	126	0	111	153	250	291	411
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	0	5	23	48	44	51	0	5	30	87	127	176
Bilateral	0	289	99	288	87	96	0	1,772	1,932	2,658	2,763	2,824
Private Creditors	0	57	54	17	0	-1	0	801	930	870	746	736
Suppliers	0	47	33	16	3	-1	0	192	253	213	153	151
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	15	43	28	10	10	0	160	206	228	238	245
Total LT	0	365	229	409	148	230	0	2,843	3,221	4,006	4,039	4,215
IMF Credit	0	0	0	16	25	16	0	0	0	17	41	56
Net Short-Term Capital	0	150	0	0	0	47	0	198	295	330	326	700
Total incl. IMF & Net ST	0	515	229	425	172	292	0	3,041	3,517	4,354	4,405	4,971

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.18	0.93	2.18	3.14	4.17
3. IBRD+IDA as % of Total	0.00	0.18	0.93	2.18	3.14	4.17
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	0.41	1.25	3.72	2.79
3. IBRD+IDA as % of Total	0.00	0.00	0.41	1.25	3.72	2.79
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	0.00	1547.69	1625.18	1711.97	1552.19	1639.44
2. IMF Credit/Exports	0.00	0.00	0.00	7.39	15.76	21.82
3. Short-Term Debt/Exports	0.00	107.51	149.04	141.15	125.13	272.11
4. LT+IMF+ST DOD/Exports	0.00	1655.20	1774.22	1860.51	1693.08	1933.37
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	0.00	83.74	77.20	272.31	321.32	365.16
2. IMF Credit/GDP	0.00	0.00	0.00	1.18	3.26	4.86
3. Short-Term Debt/GDP	0.00	5.82	7.08	22.45	25.90	60.61
4. LT+IMF+ST DOD/GDP	0.00	89.56	84.28	295.94	350.48	430.62
Debt Service /Exports						
1. Public & Guaranteed LT	0.00	23.79	46.67	11.11	7.80	11.86
2. Private Non-guaranteed LT	0.00	3.86	2.32	2.56	2.54	2.10
3. Total Long-Term Debt Service	0.00	27.65	48.99	13.68	10.34	13.96
4. IMF Repurchases+Serv. Chgs.					0.04	0.12
5. Interest only on ST Debt		3.65	2.98	3.29	3.46	3.89
6. Total (LT+IMF+ST Int.)		31.30	51.97	16.97	21.68	17.97

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Myanmar

Despite some partial reforms, Myanmar's economic development strategy until 1988 remained essentially that of the Twenty-Year Plan adopted in 1972. The government's main economic objectives were to foster economic growth within the context of the "Burmese Way to Socialism", to enhance economic strength and self-sufficiency through transformation from an agricultural to an industrial society, to eliminate unemployment, and to reduce income disparities between regions and ethnic groups.

Throughout the 1960s and the early 1970s, investment levels were very low, under 10 percent of GDP, since low fiscal revenue precluded the government from raising public investment sufficiently to compensate for declining private investment. However, a major expansion of investment during the late 1970s and early 1980s, encouraged by substantial increases in donor assistance, helped to stimulate a strong surge in production. During this period, average annual growth in the agriculture sector climbed to over 8 percent, according to official estimates, while overall GDP growth was estimated to have averaged 6.4 percent yearly between 1977 and 1982. Increased investment in mining also produced quick output gains in oil and gas production. Exploitation of natural gas started in 1974 and doubled in four years; oil production increased by 50 percent over 1973-80. Although the substantial increase in foreign assistance largely propelled output growth, some new investment was financed from additional domestic savings resulting from a 1976 tax reform and from SEE (State Economic Enterprises) price increases. These measures jointly had the effect of expanding government revenues from 9 percent of GNP in 1977 to 17 percent of GNP in 1981.

However, large macroeconomic imbalances emerged in the early 1980s and these were followed by drastic cuts in imports and investment. During 1982-86, imports fell from 16 percent to 7 percent of GDP and investment declined from 22 percent to 13 percent. The government was, nevertheless, able to get more foreign assistance on concessional terms, which allowed it to postpone making some urgently-needed fiscal and price adjustments. Instead, government continued borrowing from abroad to finance its current operations and to create money to finance the budget deficit, and the economy's longer-term structural problems remained largely unaddressed. These developments underlay Burma's falling standard of living and later crisis. In December 1987 Burma was accorded the status of least developed country (LLDC) by the United Nations.

Dissatisfaction with Burma's economic and political situation gave rise to widespread demonstrations in the cities and demands for an elected government during the summer of 1988. This period of civil and industrial unrest, during which there were three changes of government, ended with the takeover in September 1988 by a military State Law and Order Restoration Council (SLORC) which has since been governing the country.

Recent Economic Developments

Beginning in November 1988, the ruling council (SLORC) took a number of steps in line with its pronounced "open-door economy" policy. The main focus of these activities has been the encouragement of foreign companies to enter into joint ventures with local public and private companies. But, with the exception of oil and gas exploration deals, not many contracts have been signed, particularly in the manufacturing sector. Some additional steps have been taken to encourage external trade since the legalization of the border trade. A new tax law has been enacted, an amnesty for profit tax was put into effect, and new laws were drafted for the central bank and other financial institutions.

The SLORC announced in late 1988 its intention to decentralize the economy, with a reduced role for the state economic enterprises which had dominated the economy for about three decades. In line with this policy, on September 31, 1989 a new State-owned Economic Enterprises Law as was promulgated which redefined and limited the activities to be carried out solely by the government. The twelve areas reserved for the state sector included the extraction and sale of teak, forest plantation, petroleum and natural gas, precious stones, fisheries, postal and telecommunication services, air and rail transport, banking and insurance, broadcasting services, metals, electricity generating and manufacture of security and defence related products. Privatization of SEEs was also accepted in principle. So far the privatization has mainly involved returning of sawmills and ricemills to previous owners, from before nationalization in the 1960s. Another development in this area was the transfer of SEE accounts to a consolidated government State Fund Account. In the process, the debts of SEEs to Myanmar Economic Bank were written off and converted into "state investment".

In November 1988 the SLORC promulgated a new Foreign Investment Law, the main stated objective of which is to promote exports and exploit natural resources. The Law allows investments with 100 percent foreign capital or in joint ventures with local firms; in the latter case foreign capital participation must be at least 35 percent. The Law also provides a three-year tax holiday, the right to accelerate depreciation, and repatriation of profits and capital. A Foreign Investment Commission (FIC) was set up with participation at the ministerial level to establish investment priorities and screen proposals.

Since FIC began operating in May 1989, some 22 permits were approved for foreign investment. All but two of these permits are for joint ventures. The most important are in the area of oil and gas exploration. To date nine such agreements have been signed with foreign companies for on-shore exploration and one for off-shore exploration. These are all product-sharing arrangements for a twenty-year period, at the end of which the contracts are renegotiable. The foreign companies are allowed three years for exploration. The government received signature bonuses for these contracts. After the exploration, if the foreign company decides to develop the blocks assigned to it, it will pay a "development plan approval bonus". Finally, the government will also receive a production bonus based on agreed production per day. In addition to these various bonuses, the contracts specify royalty amounts and the ratio for production sharing.

Of the remaining permits issued by FIC two are in mining, three in hotels, and seven in manufacturing industry. Joint ventures in the manufacturing industry plan to invest in the animal feed, garment, wood processing, metal, and electronics sub-sectors. In all these joint ventures, with the exception of one for animal feed, the local partner is the government. However, the joint ventures all have private sector status regardless of the nature of the participating local firms. Some other foreign firms have begun operations during the last year in Myanmar under the Special Companies Act. Under these arrangements, two department stores (one of them from Singapore and the other from Korea) are allowed to sell imported goods against payment in foreign exchange or local currency at a market-based rate of exchange.

Various concessions have been granted to foreign companies for timber extraction and fishing. These concessions were sold (mostly to Thai companies) in 1988, prior to the promulgation of the Foreign Investment Law, and, therefore, were not subjected to the scrutiny of the Foreign Investment Committee. About 30 concessions have been contracted to Thai companies for a period of two to three years, and for about five to ten thousand tons per year each. The long-term implications on environment of possibly unsound logging and trucking practices under the timber concessions are matters deserving careful study by the government. The situation is somewhat similar with the concessions granted to foreign companies for fishing in the Myanmar waters. These concessions, which were given prior to the Foreign Investment Law, specify the number of boats that are allowed to fish. However, under the present arrangements, it is relatively easy to conceal fishing over and above what is allowed under contract. In another area, the gem, jade, and pearl trade, official statistics reflect only a small fraction of the actual rate of exploitation, since there is a burgeoning informal trade, in particular with Thailand.

A number of measures have been taken to increase budgetary revenue or improve tax administration. Two of these measures are of major significance. On April 1, 1990 the Consumption and Services Tax was abolished and was replaced by a new Commercial Tax. The new tax will be levied on production at different manufacturing stages and, therefore, is likely to have a cascading impact. It will also be levied on imports at the time when actual importing takes place. An important difference between this new tax and the old Consumption and Services Tax is that the latter applied only to the SEEs, while the new tax will apply to both the public and private sectors. Another important development in the fiscal area was that on February 7, 1990 the government declared amnesty for offenders of the Profit Tax. A Profit Tax of 25 percent would be assessed on the declared value of money and property only once.

The government has recognized the inadequacy of existing financial structures, particularly in view of the requirements of an open door investment policy. The authorities have drafted two laws: the "Union of Myanmar Financial Institutions Law", and the "Central

Bank of Myanmar Law". The first will make it possible for financial institutions, including banks, to be established by the private sector and foreign firms. The central bank law is aimed at endowing the central bank, which currently acts as a department of the Treasury, with the instruments of monetary policy, including interest rate policy, open-market operations, and reserve ratios. Both of these draft laws were expected to be adopted in the near future.

Medium-Term Issues

Development Strategy. Myanmar is potentially one the richest countries in South Asia. Apart from an impressive natural resource base, it is endowed with a relatively well-educated population. The crucial issue is how well these resources will be managed and developed. In order to achieve faster growth while maintaining internal and external financial stability, major efforts will need to be undertaken in the area of domestic resource mobilization, to enable the government to maintain a level of public expenditures compatible with high growth without overstretching domestic bank credit. Moreover, if Myanmar is to achieve high GDP growth, efforts to improve domestic resource mobilization would need to be supported by incentive and decontrol measures to increase production and export earnings. Agricultural products now make up 80 percent of Burma's merchandise exports. Given this export concentration and some uncertainty about Myanmar's future rice export capacity, one objective should be to encourage larger exportable surpluses of commodities other than rice and teak, to help broaden the country's export base. In the short term, priority should be given to ensuring adequate production of rice and food to meet domestic and export requirements, to upgrading the quality and marketing of export rice and to improving the profitability of agricultural exports by the private sector.

Economic policy reforms would both stabilize the macroeconomic situation and address structural problems. The most important task is to replace the vast array of interventions at the micro level with a set of market-determined incentives for production, based on a realistic exchange rate and domestic prices. Second, the role and operation of SEEs will need to be revised in order to help contain the large budget deficit and improve their efficiency. Reform of the external trade regime will need to be implemented in order to improve efficiency in domestic industry and to provide incentives for traders to increase exports and to use official channels. Finally, the banking system will need to be developed in order to handle the expected growth in demand for credit and financial services by the private sector.

Debt Issues. The ratio between Myanmars' outstanding debt and GDP has been around 40 percent. Reserves, despite an improvement in 1989/90, remain low at about one and a half months imports and partly reflects Myanmar's arrears with a number of creditor countries. The debt situation is a serious short-term problem even though the bulk of Myanmar's debt, around US$4.3 billion in 1988/89, is medium-to-long term and concessional in nature and the prospects for exports over the medium-term should be quite favorable, if the requisite framework for expanding exportable production can be created.

MYANMAR

Mid-1988 Population (mils.)	40
1988 Per Capita GNP in US$:	240

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.8	5.9	2.6	0.9	..
Net Indirect Taxes	-1.5	..	..	..	..	..	..	..	..	..	..
Agriculture	35.1	38.6	46.5	54.5	54.9	..	2.8	6.2	2.7	2.9	..
Industry	12.7	13.0	12.7	10.6	10.7	..	3.6	7.4	2.0	-4.0	..
(of which Manufacturing)	9.5	8.9	9.5	8.1	8.3	..	3.2	5.8	1.2	-1.5	..
Services	52.2	48.4	40.8	34.8	34.4	..	2.8	5.1	2.5	-0.6	..
Resource Balance	-5.9	-0.2	-3.8	-4.8	-0.6	..	..	..	..	..	..
Exports of GNFS	14.5	5.8	9.1	..	..	..	..	..	..	..	..
Imports of GNFS	20.4	6.0	12.9	..	..	..	..	..	..	..	..
Total Expenditures	105.9	100.2	103.8	104.8	100.6	..	..	..	..	..	..
Total Consumption	87.2	89.4	82.4	91.9	89.1	..	..	..	..	..	..
Private Consumption	87.2	89.4	69.6	77.4	..	..	..	..	..	..	..
General Government	..	..	12.8	14.5	..	..	..	7.4	3.9	..	..
Gross Domestic Investment	18.7	10.8	21.5	12.9	11.6	..	2.5	16.3	-4.4	-10.1	..
Fixed Investment	10.6	9.5	18.7	14.0	10.1	..	0.4	18.5	-1.2	-7.3	..
Changes in Stocks	8.1	1.3	2.8	-1.1	1.4	..	..	..	..	..	..
Gross Domestic Saving	12.8	10.6	17.6	8.1	10.9	..	..	..	..	..	..
Net Factor Income	0.1	-0.1	-0.4	-1.0	-1.0	..	..	..	..	..	..
Net Current Transfers	0.0	0.0	0.1	0.4	0.0	..	..	..	..	..	..
Gross National Saving	12.9	10.5	17.3	7.5	9.9	..	..	..	..	..	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	32,021	36,245	54,674	66,369	66,993	..	2.8	5.9	2.6	0.9	..
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	32,035	36,196	54,607	65,697	66,319	..	2.8	5.9	2.4	0.9	..
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	58.7	73.3	80.2	100.0	116.0	..	3.3	9.3	8.6	16.0	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	70.6	80.1	85.0	100.0	106.1	..	2.9	9.3	4.8	6.1	..
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.4	2.2	2.2
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	-5.5	31.6	-26.1
Gross Domestic Saving	-4.1	32.0	-20.7
ICOR (period averages):	..	2.3	7.4

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	63.7	57.2	53.0	..
Industry	13.5	16.5	18.6	..
Services	22.8	26.3	28.4	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	*Volume Index* 1980	1985	1986	1987	1988	1989	*Value at Current Prices (millions US$)* 1980	1985	1986	1987	1988	1989
X.FOOD.RICE	..	..	..	..	..	..	202	93	74	..	..	..
X.TIM	..	..	..	..	..	..	109	118	141	..	..	..
X.FOOD.Z	..	..	..	..	..	..	23	29	26	..	..	..
X.OAGRI.RUBBER	..	..	..	..	..	..	12	7	7	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	134	67	92	299	..	..
Total Exports FOB	..	..	..	..	..	..	480	314	340	299	..	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	9	8	0	2	..	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	33	63	32	32	..	..
Other Intermed. Goods	..	..	..	..	..	..	282	181	158	182	..	..
Capital goods	..	..	..	..	..	..	378	335	344	393	..	..
Total Imports CIF	..	..	..	..	..	..	701	587	537	611	..	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	*US$ millions (at current prices)* 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	480	378	400	307	..	..
Merchandise (FOB)	428	313	333	268	..	..
Non-Factor Services	52	65	67	38	..	..
Imports of Goods & NFS	861	592	680	566	..	..
Merchandise (FOB)	788	512	623	524	..	..
Non-Factor Services	73	80	57	42	..	..
Resource Balance	-381	-213	-280	-260	..	..
Net Factor Income	-46	-68	-106	-86	..	..
(interest per DRS)	45	70	89	70	39	113
Net Current Transfers	7	6	6	38	0	..
(workers' remittances)	0	0	0	0	0	..
Curr. A/C Bal. before Off. Transf.	-420	-276	-380	-307	..	..
Net Official Transfers	73	74	86	99	..	..
Curr. A/C Bal. after Off. Transf.	-347	-203	-294	-208	..	..
Long-Term Capital Inflow	371	130	303	182	..	..
Direct Investment	0	0	0	0	..	..
Net LT Loans (DRS data)	202	192	232	247	220	96
Other LT Inflow (Net)	169	-62	71	-65	..	..
Total Other Items (net)	59	55	27	56	..	..
Net Short Term Capital	20	5	-54	16	..	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	40	50	81	40	..	..
Changes in Net Reserves	-83	18	-36	-30	-65	..
Net Credit from the IMF	-34	-6	-25	-31	-16	..
Other Reserves Changes	-50	24	-11	2	-49	..
As Share of GDP:						
Resource Balance	-6.6	-3.1	-3.4	-2.5	..	..
Interest Payments	0.8	1.0	1.1	0.7	0.4	..
Current Account Balance	-7.3	-4.0	-4.6	-3.0	..	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	261	34	33	27	77	263
Reserves incl. Gold (mil. US$)	409	116	131	149	180	364
Official X-Rate (LCUs/US$)	6.60	8.47	7.33	6.65	6.39	6.70
Index Real Eff. X-R Base 1980	100.00	102.79	105.15	126.51	141.85	168.55
GDP (millions of current US$)	5,780	6,860	8,263	10,186	11,112	..

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	17.8	18.6	18.3	18.0	..	..	9.0	2.5	3.9	..	..
Current Expenditures	12.8	14.1	14.5	14.5	..	..	10.0	7.0	5.6	..	..
Current Budget Balance	5.0	4.5	3.8	3.5	..	..	6.4	-11.6	-2.7	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	14.0	11.0	12.5	11.6	..	..	3.5	18.8	-1.8	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-8.9	-6.5	-8.7	-8.1	..	..	2.2	39.9	-1.4	..	..
Official Capital Grants	1.7	1.3	1.2	1.0	..	..	-5.8	-1.3	-9.7	..	..
External Borrowing (net)	2.5	1.7	2.5	2.3	..	..	0.2	52.6	-1.8	..	..
Domestic Non-Bank Financing	-0.2	-0.5	-0.5	-0.5	..	..	..	..	..	..	..
Domestic Bank Financing	5.0	5.3	6.7	6.3	..	..	11.2	32.5	0.7	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	202	192	232	247	220	96	1,390	2,897	3,618	4,246	4,217	4,089
Official Creditors	178	250	289	247	251	178	1,106	2,546	3,275	3,874	3,906	3,905
Multilateral	38	60	93	85	98	69	279	694	809	906	980	1,077
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	23	40	57	56	58	41	146	411	488	553	594	642
Bilateral	139	189	196	162	153	110	826	1,852	2,466	2,968	2,926	2,828
Private Creditors	25	-58	-57	0	-31	-82	284	351	343	372	312	184
Suppliers	-9	-20	-27	-7	-18	-34	106	152	143	147	123	67
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	202	192	232	247	220	96	1,390	2,897	3,618	4,246	4,217	4,089
IMF Credit	-9	-29	-47	-47	-21	-6	106	108	73	29	8	2
Net Short-Term Capital	20	5	-54	16	..	..	4	86	102	81	96	55
Total incl. IMF & Net ST	212	168	131	216	..	..	1,499	3,091	3,792	4,356	4,321	4,145

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	10.52	14.19	13.47	13.03	14.08	15.70
3. IBRD+IDA as % of Total	10.52	14.19	13.47	13.03	14.08	15.70
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.90	2.18	2.39	3.99	6.43	2.77
3. IBRD+IDA as % of Total	0.90	2.18	2.39	3.99	6.43	2.77
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	281.10	758.11	894.59	1380.65	..	..
2. IMF Credit/Exports	21.36	28.31	17.93	9.56	..	..
3. Short-Term Debt/Exports	0.81	22.51	25.20	26.28	..	..
4. LT+IMF+ST DOD/Exports	303.27	808.93	937.71	1416.49	..	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	24.05	42.23	43.78	41.68	37.95	..
2. IMF Credit/GDP	1.83	1.58	0.88	0.29	0.07	..
3. Short-Term Debt/GDP	0.07	1.25	1.23	0.79	0.87	..
4. LT+IMF+ST DOD/GDP	25.94	45.06	45.89	42.76	38.89	..
Debt Service /Exports						
1. Public & Guaranteed LT	22.55	49.15	57.91	55.41	..	..
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	..	..
3. Total Long-Term Debt Service	22.55	49.15	57.91	55.41	..	..
4. IMF Repurchases+Serv. Chgs.	5.34	9.03	12.61	16.03	..	..
5. Interest only on ST Debt	0.67	0.94	1.26	1.85	..	..
6. Total (LT+IMF+ST Int.)	28.56	59.12	71.78	90.60	..	..

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Nepal

Nepal is one of the poorest countries in the world. Per capita income is estimated at about US$170 (1988). Social indicators also remain well below the average for South Asia. Life expectancy at birth is 51 years, infant mortality is 128 per 1,000, and adult literacy is only 19 percent. The population, estimated to be 18 million (1988), grew at a rate of about 2.7 percent per year between 1971 and 1988. About 95 percent of the population lives in rural areas.

Population density with respect to arable land (590 persons per sq km) is one of the highest in the world and farmers have been forced to cultivate increasingly marginal lands and forests. In addition, forests have been further denuded to meet the growing household demand for fuelwood which accounts for the bulk of energy consumption in Nepal. Soil erosion accelerated by the deforestation is now raising regional concerns as a cause of river silting and consequent flooding.

Agriculture accounts for over half of Nepal's GDP and employs over 90 percent of the labor force. Crop production accounts for about 60 percent of agricultural output, livestock for 30 percent, and forestry for 10 percent. Apart from agricultural land, Nepal's other important exploitable resources are hydropower and tourism. Exploitation of its vast hydropower resources will depend upon the government's ability to enter into complex agreements with neighboring countries regarding the use and development of water resources and the exchange of water-related benefits. The tourism sector, based primarily on Nepal's religious and cultural sites and its Himalayan environment, provides about 20 percent of the country's export earnings. Other major export earners are carpets and ready-made garments, which now account for over half of merchandise exports.

Various factors have impeded Nepal's development: some reflect its rugged terrain, landlocked position, and resource endowment, some emanate from institutional weaknesses, and others are consequences of inappropriate economic policies. The country's landlocked location has increased transportation costs; and Nepal's long border with India has limited its flexibility in designing economic policies. Rugged topography has restricted the arable area and created various microclimates that form impediments to widespread application of standard cultivation technologies. In addition, as mentioned above, population pressure in the Hills has contributed to rapid deforestation which poses long-term threats to Nepal and neighboring countries. The public investment program has had insufficient focus, and has suffered from weak implementation—stemming largely from deficiencies in the administrative services. The public sector has fixed key prices and heavily regulated industrial production and imports. These restrictions have often been justified as instruments to stop deflection of goods to India. But, they have also tended to suffocate private sector initiative.

Following centuries of self-imposed isolation, efforts to develop a modern economy began in the 1950's with a series of development plans. The early development plans concentrated on building infrastructure to provide a basis for future economic growth. Although progress was made in this regard, economic growth during the 1970s barely kept up with population growth, largely because of a series of poor agricultural harvests. During the Sixth Development Plan (FY81-85)[1], growing frustration with past economic performance manifested itself in surging public expenditures to accelerate the pace of development. This caused the overall budget deficit to rise from 6.1 percent of GDP in 1980/81 to 12.3 percent in 1982/83 and led to a doubling of the current account deficit of the balance of payments and a substantial fall in international reserves. While growth was higher than in past years, it became clear that the growth was not sustainable.

Consequently, toward the beginning of the Seventh Plan, the government implemented a stabiliza-

1. Fiscal year ends July 15 of year specified.

tion program. Realizing that macroeconomic stability by itself would not lead to accelerated growth, the government undertook a structural adjustment program to address some of the longer-term constraints to economic growth. The adjustment program currently includes measures to increase domestic resource mobilization, reduce the growth of expenditures and domestic bank borrowings, improve project implementation, strengthen the financial position of public enterprises, reform the financial sector to enable it to improve monetary management and resource allocation as well as to strengthen the weak commercial banking sector, and liberalize industrial and trade policies to expand the traded goods sector. These measures are complemented by sectoral policies to promote agricultural production through more efficient fertilizer distribution and irrigation water delivery, reforestation, and energy production and conservation.

The response of the economy to the government's structural adjustment program was initially good. Revised estimates suggest that following a weak agricultural year in FY87, real GDP grew by 9.8 percent in FY88, with agriculture growing by 8.6 percent and commodity exports by about 35 percent in dollar terms. Growth of GDP and exports continued strong during the first 8 months of FY89 with agriculture expected to grow by about 7 percent during FY89. During this period, fiscal revenues continued to grow rapidly as programmed and as a result, net domestic financing was projected to decline significantly to within the program benchmark of 1.5 percent of GDP. Due to increases in exports of carpets and garments, tourism receipts and aid disbursements, foreign exchange reserves increased to over six months worth of imports of goods and services by March 1989. This occurred despite strong growth in imports associated with trade liberalization and the higher level of economic activity.

On March 23, 1989, the trade and transit treaties between Nepal and India expired following a breakdown in renewal negotiations, which were complicated by political considerations. The resulting disruption of Nepal's trade has had severe repercussions on the economy. The transit treaty allowed goods from third countries entering at Calcutta to pass through to Nepal exempt from customs and transit duties. The trade treaty provided for Nepalese-Indian trade at 21 border points, with primary commodities passing essentially duty-free in both directions and imports from India being subject to no quantitative restrictions and a low average tariff. In the absence of these treaties, the number of trade and transit points has been reduced to only two, both in the eastern part of Nepal. Given the lack of road or rail links between the eastern and western parts of Nepal, this has created severe shortages of essential goods in the western part of the country. In addition, with the replacement of the special bilateral trading relationship with a Most Favored Nation (MFN) tariff regime, Nepalese exports to India are now subject to very high tariffs, thus leading to a virtual halt in such recorded exports. Similarly, Nepal's imposition of MFN tariffs has resulted in cost increases on goods officially imported from India. While informal trade has increased, there are still supply shortfalls and interruptions.

Initially, the most serious effect of the disruption in Nepal was an acute shortage of coal and petroleum products, which were previously supplied by India under a special arrangement. This led to a crippling of the domestic transport system with the impact reverberating throughout the economy. Activity in most sectors, other than agriculture, declined markedly; some industrial firms were closed within a few months of the impasse, while others curtailed their operations. The hardest hit were those industries that depended on petroleum products, coal, raw materials, intermediate inputs, and spare parts from India. Substantial output losses also occurred in the construction sector, trade and transport, and many service industries that depend on tourism. The already weak financial institutions, including the two major commercial banks, were hurt by reduced debt service collections. Agricultural output was virtually unaffected, as all the main crops were harvested before the emergence of the trade and transit impasse. However, because of the terms of trade loss, agricultural incomes probably fell. Over all, the loss in value added in FY89 attributable to the impasse was estimated at over 3 percent of annual GDP; and real GDP growth for the year as a whole was only 1.5 percent, well below the 4.5 percent target. With the reduced availability of goods owing to lower supplies and transport difficulties, the increase in consumer prices in the main urban centers accelerated to an annualized rate of about 10 percent during the last quarter of FY89. However, on an annual average basis, inflation was about 8 percent.

The trade and transit impasse also contributed to a severe deterioration in public finances. Domestic revenue declined sharply in FY89 (to about 10 percent of GDP), owing in part to a reduction in average customs duties in April 1989 intended to help alleviate shortages of essential supplies previously imported from India. Significant shortfalls in other tax and non-tax receipts were also experienced mainly in response to the decline in economic activity. On the other hand, government expenditure was sustained at a high level through the end of the year despite the introduction of austerity measures and a slowdown in the implementation of many development projects. This reflected to some extent steep increases in the cost of energy and construction materials and a higher than usual rate of advance payments to contractors at the end of the year. As a result, the overall budget deficit (before grants) widened sharply to 13.9 percent of GDP. Foreign resources for the budget were substantially lower than anticipated due in part to increased delays in recovering reimbursable expenditures from donors. Consequently, the domestic financing of the deficit rose to 4.5 percent of GDP and exceeded the target (1.5 percent of GDP) by a very wide margin.

Foreign exchange earnings from both exports and nonfactor services (mainly tourism) declined sharply during the last quarter of FY89. However, since import payments were also slightly lower, for the year as a whole, the current account deficit was about as anticipated at just over 10 percent of GDP, compared to less than 9 percent in FY88. The capital account also weakened in the last four months of FY89, but for the year as a whole the net capital inflow was sufficiently large to more than offset the deficit in the current account. Gross international reserves at the end of FY89 were still about the same as a year earlier, and their coverage of imports of goods and services remained broadly unchanged at about five months.

Macroeconomic developments in the first half of FY90 were better than expected. Good weather helped agriculture; and increased supplies of fuel and other imported inputs contributed to a substantial recovery in industrial activity and continued strong growth in exports to countries other than India. Tourism from third countries reached new highs, thanks in part to a government policy of allocating fuel on a priority basis to tour operators and hotels. These encouraging developments caused the government to revise its projected FY90 GDP growth to slightly positive compared to an earlier negative projection because of the trade and transit impasse. The government's fiscal performance also improved substantially in the first half of FY90. In an effort to avoid the imbalances of the previous year, tight control was maintained over government spending. However, the burden of this restraint was felt primarily upon development expenditures. These budget cuts, combined with continuing shortages of fuel and construction materials, caused a number of development projects to be delayed.

In the third quarter of FY90, Nepal underwent a period of political unrest culminating in the formation of an interim coalition government and severe limits on the authority of the King who had previously held supreme power. The new Prime Minister, who is a leader of the Nepali Congress Party, has set out three priorities for the interim government: a) amendment of the Constitution to reflect the recent political changes; b) the holding of free elections within a year; and c) resolution of the dispute with India. The government's success in managing these political matters will have a strong impact on the pace of economic development in the short- and medium-term.

There are some indications that the interim government does not intend to make major changes in economic policy and that the logic of the structural adjustment effort continues to remain valid. The government is thus far maintaining internal and external balances, as well as proceeding with policy adjustments and institutional reform. In so doing, the government will face conflicting demands from the various members of the coalition government, as well as the high expectations of the population. Nevertheless, it is essential that the government stay the course of the structural adjustment program and settle the dispute with India; the cost of not doing so will be to wreak further damage on an economy which is already extremely fragile. Required measures include prudent fiscal and monetary policies to protect international reserves, keep inflation under control, and provide a stable economic climate for investment. In particular, it is necessary to curtail less essential public expenditures to keep them in line with lowered projections on public revenues. In cases where this will require further cuts in development expenditure, it is important that these cuts be made selectively rather than across the board. It is also important to continue with financial sector reforms and to strengthen the financial position of public enterprises to minimize both their drain on the budget and their effect on the weak banking system.

Nepal's multiple long-term economic development problems are daunting. Even if the government succeeds in mobilizing domestic resources to finance a greater share of development expenditures, external assistance on concessional terms will continue to play an important role in financing investment. In recent years, recorded aid disbursements to Nepal have averaged over $200 million per year (about 7 percent of GDP) and have been almost entirely in the form of grants or concessional loans with grant elements exceeding 70 percent. Even this level is an underestimate since a large portion of technical assistance and direct aid payments is unrecorded. Given the large undisbursed aid pipeline and indications of aid made by members of the Aid Group at their last meeting, aid disbursements are projected to continue to increase.

As of July 1989, Nepal's official foreign debt outstanding and disbursed amounted to about US$1.3 billion. Until very recently, as virtually all loans have been concessional, debt-service payments, including payments to the IMF, were less than 10 percent of exports of goods and services. The debt-service ratio rose to about 17 percent in 1989 due partly to the acquisition of two commercial aircraft to support increased tourist demands and partly to the fall in exports caused by the trade and transit difficulties with India. With improved export performance, however, the ratio should decline after a couple of years.

NEPAL

Mid-1988 Population (mils.)	18
1988 Per Capita GNP in US$:	170

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data) /1				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	1.7	3.0	4.7	9.7	1.5
Net Indirect Taxes	1.4	2.0	6.3	6.3	7.1	5.7	..	..	..	..	..
Agriculture	64.6	65.3	57.9	52.4	52.1	55.3	1.5	0.0	4.4	8.7	6.9
Industry	10.9	9.6	11.2	15.2	15.4	14.1	..	..	..	..	..
(of which Manufacturing)	3.3	4.0	4.0	6.2	6.0	5.8	..	..	..	..	..
Services	23.2	23.0	24.7	26.2	25.4	24.9	..	..	..	..	..
Resource Balance	-6.2	-3.8	-7.2	-9.7	-9.9	..	..	..	..	..	..
Exports of GNFS	7.8	6.6	11.5	13.1	12.9	..	..	..	..	..	..
Imports of GNFS	13.9	10.4	18.7	22.7	22.8	..	..	..	..	..	..
Total Expenditures	106.2	103.8	107.2	109.7	109.9	..	..	..	..	..	..
Total Consumption	99.7	94.6	88.9	90.0	90.2	..	..	..	..	..	..
Private Consumption	99.7	94.6	82.2	80.2	79.9	..	..	..	..	..	..
General Government	..	..	6.7	9.8	10.2	..	..	..	..	..	..
Gross Domestic Investment	6.4	9.2	18.3	19.6	19.7	20.6	..	..	..	..	..
Fixed Investment	..	..	15.8	17.8	17.8	..	..	..	..	..	..
Changes in Stocks	..	..	2.5	1.9	1.9	..	..	..	..	..	..
Gross Domestic Saving	0.3	5.4	11.1	10.0	9.8	..	..	..	..	..	..
Net Factor Income	0.0	0.0	2.1	2.0	2.3	2.5	..	..	..	..	..
Net Current Transfers	0.0	0.0	1.7	2.4	2.6	1.8	..	..	..	..	..
Gross National Saving	0.3	5.4	14.9	14.5	14.2	..	..	..	..	..	..
In thousands of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	..	..	..	..	..	..	..	..	..	..
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	..	..	..	..	..	..	..	..	..	..	..
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

C. Price Indices	*1980*	*1985*	*(1987 = 100)* *1986*	*1987*	*1988*	*1989*	*Inflation Rates (% p.a.)* *1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	48.9	75.9	90.3	100.0	109.0	..	5.3	6.9	10.4	9.0	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	..	..	..	..	..	..	..	..	..	..	..
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.1	2.6	2.7
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	39.1	53.5	12.3
Gross Domestic Saving	39.1	38.0	7.3
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	94.0	93.4	93.0	..
Industry	1.7	1.1	0.6	..
Services	4.3	5.5	6.5	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD	..	..	..	..	..	..	27	59	47	38	44	21
X.MAN.TEXT	..	..	..	..	..	..	22	56	78	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	29	67	92	78	118	127
Residual	..	..	..	..	..	..	18	-28	-57	23	24	15
Total Exports FOB	..	..	..	..	..	..	96	154	160	139	186	163
F. Merchandise Imports												
Food	..	..	..	..	..	..	37	51	56	56	85	58
Fuel and energy	..	..	..	..	..	..	18	52	55	43	48	44
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	132	208	224	241	267	344
Capital goods	..	..	..	..	..	..	60	94	111	130	188	190
Total Imports CIF	..	..	..	..	..	..	274	435	484	507	628	636

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	225	301	329	350	395	376
Merchandise (FOB)	97	154	156	139	187	162
Non-Factor Services	127	147	173	211	208	214
Imports of Goods & NFS	364	523	559	599	729	727
Merchandise (FOB)	297	436	474	506	630	634
Non-Factor Services	67	87	85	93	99	93
Resource Balance	-140	-222	-230	-249	-334	-351
Net Factor Income	13	1	-9	-9	-9	-5
(interest per DRS)	2	8	12	14	19	25
Net Current Transfers	33	39	41	65	75	49
(workers' remittances)	0	0	0	0	0	..
Curr. A/C Bal. before Off. Transf.	-94	-183	-198	-193	-268	-307
Net Official Transfers	3	4	4	60	58	47
Curr. A/C Bal. after Off. Transf.	-91	-179	-194	-133	-210	-260
Long-Term Capital Inflow	113	171	197	127	217	207
Direct Investment	0	0	0	0	0	..
Net LT Loans (DRS data)	48	96	128	169	184	207
Other LT Inflow (Net)	64	75	69	-42	32	0
Total Other Items (net)	-19	-41	25	67	-35	0
Net Short Term Capital	0	0	0	61	36	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-19	-41	25	6	-71	..
Changes in Net Reserves	-2	49	-28	-60	29	53
Net Credit from the IMF	0	-5	10	22	13	..
Other Reserves Changes	-2	54	-38	-82	15	53
As Share of GDP:						
Resource Balance	-7.2	-8.9	-9.0	-9.3	-10.9	-11.9
Interest Payments	0.1	0.3	0.5	0.5	0.6	0.8
Current Account Balance	-4.9	-7.3	-7.8	-7.2	-8.7	-10.4
Memorandum Items:						
Reserves excl. Gold (mil. US$)	183	56	87	178	220	214
Reserves incl. Gold (mil. US$)	272	105	146	251	283	276
Official X-Rate (LCUs/US$)	12.00	18.25	21.23	21.82	23.29	27.19
Index Real Eff. X-R Base 1980	100.00	107.87	95.94	94.70	91.21	..
GDP (millions of current US$)	1,946	2,499	2,547	2,678	3,076	2,945

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Revenue	8.1	8.8	9.2	10.3	10.8	..	15.2	18.6	28.6	23.0	..
Tax Revenue	6.5	7.1	7.3	7.6	8.5	..	17.1	16.1	19.5	31.6	..
Non-Tax Revenue	1.5	1.7	2.0	2.8	2.4	..	7.0	28.6	62.7	-0.4	..
Expenditure & Net Lending	14.9	18.9	19.4	19.9	20.8	..	26.4	16.7	17.5	22.5	..
Regular	..	..	..	..	..	..	..	..	..	..	..
Development	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	6.8	10.1	10.2	9.6	10.0	..	39.9	15.1	7.5	22.0	..
Financed by:	..	..	..	..	..	..	..	..	..	..	..
Foreign Grants	3.5	2.1	2.3	2.2	3.1	..	10.6	27.0	9.6	61.6	..
Gross Foreign Borrowing	2.3	4.0	5.0	4.7	5.6	..	23.3	42.5	8.2	41.0	..
Gross Domestic Borrowing	1.1	4.1	2.9	2.7	1.3	..	274.7	-17.8	4.6	-44.3	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	48	96	128	169	184	207	156	545	697	919	1,088	1,275
Official Creditors	48	91	113	132	133	218	156	527	663	847	966	1,169
Multilateral	34	81	92	116	125	190	127	455	558	701	814	1,003
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	25	33	55	81	81	107	76	236	295	392	466	572
Bilateral	14	10	21	16	9	28	29	72	105	146	152	166
Private Creditors	0	6	16	38	51	-11	0	17	34	72	122	106
Suppliers	0	1	7	0	0	-2	0	1	8	8	8	2
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	48	96	128	169	184	207	156	545	697	919	1,088	1,275
IMF Credit	18	4	-1	15	12	8	42	22	24	43	53	35
Net Short-Term Capital	0	0	0	61	36	..	7	23	21	19	23	18
Total incl. IMF & Net ST	67	100	128	245	231	..	205	590	741	981	1,164	1,327

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	48.81	43.33	42.38	42.63	42.82	44.84
3. IBRD+IDA as % of Total	48.81	43.33	42.38	42.63	42.82	44.84
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	10.00	16.42	16.60	18.18	16.35	9.60
3. IBRD+IDA as % of Total	10.00	16.42	16.60	18.18	16.35	9.60
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	64.82	177.66	209.62	258.90	269.41	326.87
2. IMF Credit/Exports	17.30	7.11	7.07	12.11	13.04	8.85
3. Short-Term Debt/Exports	2.91	7.50	6.17	5.27	5.69	4.49
4. LT+IMF+ST DOD/Exports	85.03	192.27	222.86	276.28	288.14	340.21
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	8.01	21.80	27.37	34.32	35.39	43.29
2. IMF Credit/GDP	2.14	0.87	0.92	1.61	1.71	1.17
3. Short-Term Debt/GDP	0.36	0.92	0.80	0.70	0.75	0.59
4. LT+IMF+ST DOD/GDP	10.51	23.59	29.09	36.63	37.85	45.05
Debt Service /Exports						
1. Public & Guaranteed LT	1.66	4.37	7.79	8.37	9.08	14.69
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	1.66	4.37	7.79	8.37	9.08	14.69
4. IMF Repurchases+Serv. Chgs.	0.29	2.19	1.23	1.41	1.16	0.59
5. Interest only on ST Debt	1.00	0.55	0.36	0.45	0.54	0.49
6. Total (LT+IMF+ST Int.)	2.95	7.11	9.38	10.23	10.78	15.77

Notes:

/1 Growth rates are calculated from original 1975 base year.

Niger

With an area of 1.27 million square kilometers, Niger is roughly 2.5 times the size of France. It is a landlocked country, and its closest access to the sea is 600 kilometers from the southern border. The population is estimated at 7.25 million and growing at about 3.2 percent a year which is above the average for Sub-Saharan Africa. About half of the population is less than 15 years old. Nearly 90 percent of the population is concentrated along the southern border, in the 12 percent of the land area which is considered arable. Rainfall is limited and often irregular, while soil fertility is low and declining, due to intensive use. Niger is one of the poorest countries of the world, with a per capita GNP of US$280 in 1989. Life expectancy at birth of 44 years is low, even in comparison with other African countries. Infant and child mortality rates are high. The adult literacy rate is only 14 percent (8 percent among women) and the primary school enrollment ratio at 28 percent is one of the lowest in Africa.

The Nigerien economy has traditionally been dominated by subsistence agriculture, 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, the country has been self-sufficient in staple food production, despite its limited agricultural resource base. The discovery of large uranium deposits in the late 1960s triggered the development of an important mining sector in Niger. Under highly favorable conditions in the world market for uranium during the late 1970s, the mining sector expanded rapidly; uranium became the country's principal foreign exchange earner and a major source of government revenues. As a result, Niger went through a period of rapid growth and modernization, and the public sector took a dominant position in the modern economy. The uranium boom ended in the early 1980s, when prices dropped and Niger's production decreased.

Niger has an open economy, with imports and exports amounting to about 25 percent of its GDP. Strong trade links exist with Europe (mainly France) and neighboring African countries, in particular Nigeria which exerts considerable economic influence through its traditional trading and cultural links. This openness has been facilitated in part by the West African Monetary Union, of which Niger is a member. The Union's central bank (BCEAO) issues a common currency for its member states, the CFA franc. Its full convertibility into French francs (FF) is guaranteed by France. In return, the monetary union imposes discipline over the monetary and balance of payments policies of its member countries.

Past Economic Performance

Niger exhibited all the features of a typical resource-poor Sahelian country until the uranium boom when the mining sector's share of GDP rose from 6 percent in 1975 to 13 percent in 1980. The end of the uranium boom revealed a number of serious deficiencies in the structure of the economy as a result of the government's use of the public expenditure program as the primary instrument for allocating resources in the economy and for generating economic growth. Public investment focused on infrastructure and construction projects, while agricultural investment encountered serious problems. Recurrent expenditure favored personnel and transfer payments over operation and maintenance, to the detriment of existing infrastructure and basic public services.

During the late seventies, public enterprises proliferated into uneconomic activities and acquired privileges that discouraged private sector development. Many of them incurred substantial operating losses and became a drain on the government budget and the financial sector. This negative performance was caused by government regulatory policies in the areas of pricing, marketing and employment, by excessive government interference in day-to-day management, by lack of qualified personnel, and by inadequate management practices.

The rural development strategy which the government had pursued through the 1970s to achieve food self-sufficiency was implemented through expensive, large-scale projects, using unproven technology and heavy institutional infrastructure. The government intervened actively in input, product and financial markets, to overcome perceived weaknesses in private sector activities. This distorted market incentives for agricultural production and caused substantial public sector outlays.

Although uranium revenues started to decline in 1981, the government continued to implement its ambitious development plans by relying increasingly on external borrowings. To finance growing budget and external deficits, the country accumulated heavy foreign debts, which rose to US$915 million by the end of 1984, or 65 percent of GDP. A substantial share of this amount was committed on commercial terms. Without debt relief, debt service payments would have risen to 45 percent of export earnings in 1984.

Recent Economic Developments

Faced with rapidly deteriorating economic conditions, the government launched, in 1983, a stabilization program to reduce the domestic and external imbalances, and, in 1985, a structural adjustment program to improve economic growth prospects while keeping budgetary and external deficits at sustainable levels. Debt rescheduling agreements have been reached with the Paris Club each year from 1983 to 1986 and twice in 1988, and with the London Club in 1984, 1986 and 1988. These reschedulings led to an average debt service ratio of 33.6 percent for the period 1983-88.

The adjustment program has focused on policy improvements in three areas where structural problems have been most acute and where policy changes have the greatest beneficial impact on the budgetary and balance of payments position: (i) public resource management, (ii) parastatal reform, and (iii) agricultural policy.

More efficient use of public resources has been pursued to improve the use of existing investments, expand essential services and strengthen the foundations for future economic development. A three-year public investment program, which is reviewed and rolled over annually, has been adopted each year since 1986 emphasizing the directly productive sectors, the development of human resources, and the rehabilitation of existing infrastructure. Sectoral distribution of investments generally reflects government's spending priorities, although targets have not been met in agriculture, where delays in implementation are largest, and some reallocation between sub-sectors is called for (e.g., primary versus secondary and higher education). The government also aims to increase public investment from about 7 percent of GDP in 1989 to about 9 percent by 1991.

The government's parastatal reform program, which is designed to increase the efficiency of public enterprises (PEs) as well as to encourage private investment, covers four areas: (i) revision of incentive policies; (ii) improvements in the legal and institutional framework for the parastatal sector; (iii) rehabilitation, privatization and liquidation programs for individual enterprises; and (iv) a program to settle outstanding debt arrears within the public sector. Price controls have been considerably reduced and the state trade monopolies have been abolished. Legislation clarifying the relationship between the state and individual enterprises has been adopted granting the PEs more autonomy while increasing their accountability. To date, out of a total of 54 enterprises, seven enterprises have been liquidated and sixteen have been fully or partially privatized. Five PEs have merged with other enterprises, and restructuring programs have been implemented for most of the remaining ones. Government is taking measures to settle the remaining cross debts among public enterprises as well as government's own arrears to the utility companies.

The government has reformulated its rural development strategy and supporting policies to improve the efficiency of its interventions in this sector and to limit their budgetary impact. The sectoral investment program is being reoriented, emphasizing quick-yielding, small-scale projects, farmer participation, and rehabilitation of existing infrastructure. The operations of the cereals marketing and storage agency (OPVN) have been limited to the management of a reduced security stock, and its price stabilization role has been eliminated. Subsidies on agricultural inputs are being curtailed in order to expand their availability and to limit the drain on the government's budget. Emphasis is being placed on improving rural financial markets. The agricultural research program is being reoriented toward applied research at the farm level and farm systems research in order to strengthen the basis for longer-term agricultural growth. The role and efficiency of agricultural extension services are being reexamined with a view to linking them more closely to research and the other rural services (livestock, water, forestry, works).

Niger's recent economic performance has been mixed. Under the influence of less favorable weather conditions and a further drop in the price of uranium, real GDP in 1989 dropped by 3.5 percent after an increase of 5.0 percent during 1988. The external sector situation deteriorated further as a result of heightened competition from Nigeria after the devaluation of its currency. The overall value of Nigerien exports dropped by 9.0 percent during 1989 and a further decline is expected for 1990. The current account deficit, excluding official transfers, increased from 9.2 percent of GDP in 1988 to 10.7 percent in 1989. The overall balance of payments turned from a surplus in 1988 into a deficit of 2.4 percent of GDP in 1989. The overall fiscal deficit (on a commitment basis and including grants) increased from 4.9 percent of GDP in 1988 to 6.1 percent in 1989.

Although the government has made progress in implementing reforms under the adjustment program, particularly in the area of public enterprise reform and trade liberalization, performance in other areas such as public resource management has been weaker. The political changes precipitated by the death of President Kountché in 1987 and the accession of President Saibou, including moves toward more open and democratic government have resulted in a slowdown in the adjustment effort. Despite opposition groups becoming more vocal, the government has continued to emphasize its commitment to pursuing the adjustment process and has maintained a dialogue with the Bank and the IMF. Such commitment will need to be sustained if future reforms in such areas as the financial sector, the budget, and public administration are to be implemented successfully and to the benefit of Niger's economy.

Development Prospects

Niger faces a double development challenge. The country still has to overcome the financial imbalances and structural weaknesses that are the legacy of the uranium boom. It has also to develop its economy on a narrow base, as regards both physical and human resources. In the short term, the focus should be on improving the efficiency with which existing resources are utilized, while efforts continue to expand the productive base of the economy to restore a minimum acceptable rate of growth in the longer term.

The longer-term prospects for agricultural development in Niger are uncertain, given the low and diminishing fertility of the soil and the unstable climatic conditions in the Sahel region. Food production can only be increased through improvement in yields on land that is already under cultivation. Better use of modern agricultural inputs, the development of small-scale irrigation schemes, applied research on rainfed agriculture, and improved natural resource management are important for the future development of Niger's rural sector.

Industrial development is handicapped by the limited size of the domestic market, the landlocked position of the country, the lack of local raw material resources, and economic developments in Nigeria. Nevertheless, private initiative should be encouraged in all sectors (e.g., tourism, handicrafts, artisanal production of agricultural implements) by the establishment of incentive and regulatory arrangements more conducive to private sector operations and investment. Improved financial intermediation should be given high priority, together with streamlined taxation and investment administration systems. In the mineral and petroleum sector, the development potential should be better assessed by geological surveys and exploration activities, and the government should encourage private investment for exploration, as well as development.

Developing human resources is crucial for future economic growth in Niger, although investments in this area have a long gestation period. Primary education is being improved as a first priority. Further expansion of post-primary education—including professional and vocational training—should be based on a careful assessment of expected resource availability, ways of utilizing more efficiently existing facilities, and estimated future demand for trained manpower. Health programs should focus on improving basic health services in the rural areas and on preventive rather than curative care. The current rate of population growth of about 3.2 percent a year puts unbearable pressure on the country's scarce resources, including those for the government's budget, and hampers real growth in per capita income. Under the circumstances, a development program needs to emphasize formulation and implementation of an active policy to reduce population growth.

To further these development objectives, a major effort will be required to enhance public resource management. Special attention should be given the adequate funding of expenditures on materials and supplies and avoiding increases in the public sector wage bill. The Nigerien government should continue its careful review of investment strategies and coordination among donors needs to be strengthened to ensure that assistance projects are in line with the government's adjustment and development strategies. Considerable external financial assistance on highly concessionary terms or as grants will be needed, in light of the country's external debt situation. Niger requires increased non-project assistance to support policy reform, more recurrent cost financing, and, in view of the government's budget constraints, substantial amounts of local cost financing. In order to keep Niger's debt service burden manageable in the future, supplementary measures of debt alleviation are needed, including relief on Niger's relatively high commercial debt burden.

NIGER

Mid-1988 Population (mils.)	7
1988 Per Capita GNP in US$:	280

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	-0.8	6.8	-2.3	5.0	-3.5
Net Indirect Taxes	2.4	3.3	5.0	3.2	2.8	3.0	..	..	..	-8.8	4.2
Agriculture	67.7	60.3	42.6	33.7	39.0	35.4	-2.9	1.4	1.8	13.0	-20.0
Industry	3.5	9.4	22.7	24.2	14.7	12.9	13.2	14.3	-3.3	-0.9	0.3
(of which Manufacturing)	2.1	6.3	3.7	8.7	7.1	5.9	..	..	..	-2.0	0.0
Services	28.8	30.4	34.8	42.1	46.3	51.7	-1.6	7.8	-6.5	3.0	8.0
Resource Balance	-4.5	-8.2	-14.1	-4.7	-4.2	-4.2	..	..	..	..	..
Exports of GNFS	9.5	15.5	24.4	18.6	18.3	18.1	3.4	6.7	-6.0	3.3	-9.0
Imports of GNFS	14.0	23.7	38.5	23.3	22.6	22.3	-0.2	4.8	-4.5	-8.8	-10.0
Total Expenditures	104.5	108.2	114.1	104.7	104.2	104.2	-1.6	6.5	-2.1	2.2	-5.3
Total Consumption	96.6	93.3	77.4	95.5	86.9	97.3	-2.8	6.8	-1.2	-4.6	3.3
Private Consumption	90.1	84.7	67.1	83.8	76.5	85.5	-3.4	7.3	-1.6	-6.8	3.4
General Government	6.5	8.6	10.3	11.7	10.4	11.8	2.1	3.8	1.5	1.3	2.5
Gross Domestic Investment	8.0	14.9	36.6	9.2	17.3	6.9	4.6	5.2	-7.7	74.2	-53.3
Fixed Investment	..	..	28.3	9.7	10.1	9.0	..	..	..	8.0	-14.3
Changes in Stocks	..	..	8.3	-0.5	7.2	-2.1	..	..	..	..	..
Gross Domestic Saving	3.4	6.7	22.6	4.5	13.1	2.7	..	17.3	..	234.2	-76.8
Net Factor Income	-0.3	-2.0	-1.5	-3.6	-3.1	-2.7	..	..	..	..	..
Net Current Transfers	0.0	-1.7	-2.2	-2.3	-1.9	-1.9	..	..	..	..	..
Gross National Saving	3.1	3.0	18.8	-1.4	8.1	-1.9	..	..	..	..	..

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	569	491	763	650	682	658	-0.8	6.8	-2.3	5.0	-3.5
Capacity to Import	76	88	122	121	112	101	0.1	9.5	-1.9	-7.2	-10.0
Terms of Trade Adjustment	-37	-78	-72	0	-13	-23	..	..	..	59.1	58.8
Gross Domestic Income	532	413	692	650	670	635	-1.8	7.5	-1.4	3.1	-5.2
Gross National Product	567	479	751	626	657	637	-1.0	6.8	-2.5	4.9	-3.1
Gross National Income	530	401	679	626	644	614	-2.1	7.6	-1.6	2.9	-4.8

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	77.1	110.7	107.2	100.0	98.6	..	4.7	13.7	2.1	-1.4	-2.9
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	70.3	103.4	96.6	100.0	101.7	101.8	3.6	7.4	4.6	1.7	0.0
Implicit Expenditures Defl.	80.2	103.9	96.6	100.0	104.0	106.0	4.8	7.4	3.2	4.0	1.9

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.3	2.9	3.0
Labor Force	..	..	..
Gross Natl. Income p.c.	-4.3	4.5	-4.5
Private Consumption p.c.	-5.6	4.2	-4.5
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.3	0.7	1.9
Marginal Savings Rates:			
Gross National Saving	3.3	55.9	609.1
Gross Domestic Saving	-8.5	59.7	4037.0
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	95.2	93.3	91.1	..
Industry	1.0	1.3	1.6	..
Services	3.8	5.4	7.3	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.MET.X	..	..	..	..	..	..	..	214	256	289	275	235
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	45	75	123	95	96
Total Exports FOB	..	..	..	..	..	..	..	259	331	412	369	331
F. Merchandise Imports												
Food	..	..	..	100.0	171.2	109.6	..	91	24	26	53	36
Fuel and energy	..	..	..	100.0	104.6	112.4	..	28	22	24	24	25
Other Consumer Goods	..	..	..	..	..	..	..	84	126	198	166	161
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports CIF	..	..	..	100.0	91.3	81.2	..	346	363	444	425	370

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	617	298	331	452	394	379
Merchandise (FOB)	576	259	331	412	369	323
Non-Factor Services	41	39	0	40	25	56
Imports of Goods & NFS	956	473	448	597	531	467
Merchandise (FOB)	677	346	363	444	430	370
Non-Factor Services	279	127	84	153	101	97
Resource Balance	-340	-175	-117	-144	-137	-88
Net Factor Income	-33	-42	-17	-85	-66	-56
(interest per DRS)	65	42	48	71	74	67
Net Current Transfers	-57	-59	-43	-50	-45	-40
(workers' remittances)	6	2	..	..	0	10
Curr. A/C Bal. before Off. Transf.	-429	-276	-178	-279	-248	-185
Net Official Transfers	154	212	148	142	154	124
Curr. A/C Bal. after Off. Transf.	-276	-64	-30	-137	-94	-61
Long-Term Capital Inflow	224	49	79	102	96	2
Direct Investment	44	-10	..	..	..	-5
Net LT Loans (DRS data)	223	52	113	144	121	118
Other LT Inflow (Net)	-43	7	-34	-42	-25	-112
Total Other Items (net)	58	18	-42	48	38	85
Net Short Term Capital	93	-9	-32	16	-17	-13
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-35	27	-10	32	55	98
Changes in Net Reserves	-6	-3	-6	-14	-39	-26
Net Credit from the IMF	0	22	30	18	-32	..
Other Reserves Changes	-6	-25	-36	-33	-7	-26
As Share of GDP:						
Resource Balance	-13.4	-12.2	-6.3	-6.7	-5.9	-4.2
Interest Payments	2.6	2.9	2.6	3.3	3.2	3.2
Current Account Balance	-16.9	-19.2	-9.6	-12.9	-9.2	-10.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	126	136	189	248	232	212
Reserves incl. Gold (mil. US$)	132	140	194	254	237	217
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	100.00	83.87	79.01	71.80	67.70	62.46
GDP (millions of current US$)	2,538	1,440	1,858	2,162	2,331	2,100

I. Budget (fiscal year basis)	Share of GDP (%)						Growth Rates				
	1980	1985	1986	1987	1988	1989	1980-84	1986	1987	1988	1989
Current Receipts	..	10.7	10.4	10.5	10.5	11.0	..	5.4	7.1	..	..
Current Expenditures	..	..	..	12.1	11.4	12.5	..	5.8	1.5	..	..
Current Budget Balance	..	..	..	-1.6	-0.9	-1.5	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	8.2	8.9	8.2	8.1	8.9	..	22.8	6.8	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	..	..	-9.8	-9.1	-11.2	..	..	..	..	..
Official Capital Grants	..	3.5	4.5	4.9	..	..	..	40.3	9.5	..	..
External Borrowing (net)	..	1.0	1.9	3.3	..	..	..	14.1	79.3	..	..
Domestic Non-Bank Financing	..	1.1	0.7	0.4	..	..	..	-35.2	-40.0	..	..
Domestic Bank Financing	..	1.1	-0.5	-1.1	..	..	..	-145.8	-136.4	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions)						Debt Outstanding & Disbursed (US$ millions)					
	1980	1985	1986	1987	1988	1989	1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	145	54	76	124	119	127	383	832	995	1,244	1,286	1,334
Official Creditors	74	59	85	132	128	136	255	663	842	1,106	1,186	1,230
Multilateral	46	32	66	75	96	102	143	274	359	476	552	572
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	18	22	38	66	84	39	66	147	191	273	348	383
Bilateral	28	27	19	57	33	35	112	389	483	631	634	658
Private Creditors	71	-5	-9	-8	-9	-9	128	170	153	138	100	104
Suppliers	-4	-5	-6	-3	0	0	21	14	7	3	2	2
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	79	-2	37	20	2	-9	305	199	224	254	256	247
Total LT	223	52	113	144	121	118	687	1,031	1,219	1,498	1,542	1,581
IMF Credit	10	14	18	-1	-22	-8	16	78	106	123	95	85
Net Short-Term Capital	93	-9	-32	16	-17	-13	159	99	122	75	105	116
Total incl. IMF & Net ST	325	57	99	160	83	97	863	1,208	1,447	1,696	1,742	1,782

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	9.62	14.23	15.66	18.22	22.58	24.22
3. IBRD+IDA as % of Total	9.62	14.23	15.66	18.22	22.58	24.22
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.41	1.57	1.87	2.34	2.60	3.29
3. IBRD+IDA as % of Total	0.41	1.57	1.87	2.34	2.60	3.29
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	105.81	323.63	368.81	325.57	384.38	399.87
2. IMF Credit/Exports	2.48	24.58	32.09	26.62	23.58	21.40
3. Short-Term Debt/Exports	24.53	30.99	36.90	16.36	26.27	29.34
4. LT+IMF+ST DOD/Exports	132.82	379.20	437.80	368.55	434.23	450.61
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	27.08	71.57	65.63	69.28	66.17	75.30
2. IMF Credit/GDP	0.63	5.44	5.71	5.66	4.06	4.03
3. Short-Term Debt/GDP	6.28	6.85	6.57	3.48	4.52	5.52
4. LT+IMF+ST DOD/GDP	34.00	83.86	77.90	78.43	74.75	84.86
Debt Service /Exports						
1. Public & Guaranteed LT	5.99	16.32	21.51	18.43	21.04	21.75
2. Private Non-guaranteed LT	12.84	13.62	12.40	9.39	11.54	5.18
3. Total Long-Term Debt Service	18.83	29.95	33.91	27.82	32.58	26.93
4. IMF Repurchases+Serv. Chgs.		1.76	2.96	6.52	9.40	5.72
5. Interest only on ST Debt	2.89	2.10	2.09	1.39	1.74	2.02
6. Total (LT+IMF+ST Int.)	21.72	33.81	38.96	45.90	43.72	34.67

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Nigeria

Nigeria has considerable potential for diversified development. It is a major oil producer. Petroleum production accounts for 25 percent of total GDP, 90 percent of foreign exchange receipts, and 70 percent of budgetary revenues. There are also vast reserves of natural gas, which are only beginning to be exploited. Agriculture employs over two-thirds of the labor force and provides 30 percent of GDP. Ninety percent of agricultural output comes from the crop sector, which is largely based on small-scale farming. Yams, cassava, and grains are the main food crops; cocoa, oil palm, rubber, groundnuts, and cotton are the principal cash crops. Agricultural productivity is low, with considerable scope for improvement through the extension of small-scale irrigation and improved technology. There is also scope for an expansion of cultivated areas. Manufacturing accounts for less than 10 percent of total GDP and employment. Services, which account for about 25 percent of GDP, are dominated by wholesale and retail trade.

Prior to the oil boom, Nigeria was one of the world's poorest countries. But in the 1970s, sharply rising oil export revenues improved Nigeria's prospects. By 1980, the value of exports had risen to $26 billion and per capita GNP to more than US$1,000. This process was reversed in the 1980s as the oil market progressively weakened. By 1988, exports had declined to US$7.4 billion, and per capita GNP had fallen below US$300. This prompted the Bank to reinstate Nigeria's IDA-eligibility, after a hiatus of 15 years. Nigeria's profile of socioeconomic and infrastructure indicators place it among the poorest countries in Sub-Saharan Africa. The infant mortality rate is over 100 per thousand live births. Male and female life expectancies are a meager 49 and 53 years, respectively. Half of IDA-eligible African countries have a higher per capita calorie intake than Nigeria. Most offer better access to safe water supplies in both urban and rural areas. Population, currently estimated at 117 million in 1988, is rising at a rate of about 3.2 percent per annum.

The Legacy of the Oil Boom

Buoyant oil revenues in the 1970s provided the basis for large increases in government expenditures designed to expand infrastructure and non-oil productive capacity, even as they served a valuable political and social purpose in healing the wounds of the civil war that ended in 1969. Some important successes notwithstanding, many public investment projects were undertaken without sufficient attention either to their economic viability or to the capacity of government agencies and public enterprises to implement them. Meanwhile, the increased spending on construction and urban services boosted relative prices of non-traded goods and services and undermined the incentive framework for the traded sector. Traditional agricultural exports were particularly hard hit, as the real exchange rate was allowed to appreciate substantially. Import-competing production was affected less, as import restrictions and an ineffective system of price controls allowed prices of these goods to be maintained well above world levels. Import-based consumer goods assembly industries prospered, although they contributed little to domestic value added.

When the oil market weakened in the early 1980s, sizable external and fiscal imbalances emerged. The external current account deficit reached 6 percent of GDP in 1983, and the fiscal deficit 9 percent. This was financed by public sector borrowing, a rundown of international reserves, and a large accumulation of payments arrears on external trade credits. In 1984, the authorities began to implement austerity measures to redress these deficits. Budgetary expenditures were slashed, and administrative controls over imports—in the form of import licenses and prohibitions against imports of certain items—were tightened, multiplying the inefficiencies that had developed during the period of strong oil revenues. Non-oil GDP fell sharply.

The Structural Adjustment Program

The halving of world oil prices in the first quarter of 1986 increased the urgency of reform, and in mid-1986 the government introduced a structural adjustment program (SAP). The SAP combined exchange rate and trade policy reforms aimed at promoting economic efficiency and long-term growth along with stabilization policies designed to restore balance of payments equilibrium and price stability. Considerable stress was laid on shrinking the public sector and improving its efficiency.

Exchange Rate Policy. The centerpiece of the SAP was the inauguration of the Second-Tier Foreign Exchange Market (SFEM), which resulted in a sharp depreciation of the exchange rate. The market performed well until early 1988 when the government resisted the effects of increased domestic demand and inflation on the foreign exchange market. As a result, a gap opened up between the parallel market rate and the official rate, which reached 60 percent in mid-1989. Following a sharp tightening of monetary policy in mid-1989, the parallel market rate appreciated. Coupled with a gradual depreciation of the official rate, the gap between the two exchange rates was reduced to below 15 percent by early 1990. The authorities also allowed the opening of Bureaux de Change where the exchange rate is freely negotiated between the buyer and seller. Since the SAP was introduced in mid-1986, the naira has depreciated in real terms by about 70 percent.

Trade Policy. When the SAP was introduced, import licensing was terminated, commodity marketing boards were disbanded, and price controls removed. The SAP also supported export promotion, including the right to retain all foreign exchange earnings from non-oil exports in domiciliary accounts, revamping of a moribund duty drawback scheme, and strengthening of the Nigerian Export Council. In addition, some progress was made in replacing import prohibitions with tariffs, although the importation of most food items, textiles, and certain other manufactured products has remained banned. Following a comprehensive review, a new customs and excise tariff schedule was introduced in the 1988 budget. This schedule specified rates for a seven-year period, eliminated a wide range of concessions and exemptions, and incorporated the concept of a landing charge on imports to match excises on corresponding local production. The new schedule resulted in lower levels of protection than those prevailing before SAP. A new system for import duty assessment and collection also came into effect in 1988, involving duty assessment by pre-shipment inspection agents. Furthermore, a Tariff Review Board (TRB) was established to review outstanding problems with the tariff, culminating in further adjustments in the 1989 and 1990 budgets. The changes included standardization of excise duties on textiles, further rationalization of customs duties on commercial vehicle assembly, and reduction of biases against the production of some industrial and agricultural capital goods. The import ban on cigarettes was also lifted. Other changes, however, have been less systematic, aimed at increasing protection for selected activities. The government has also foreshadowed the introduction of export prohibitions for certain primary products (e.g. cocoa) to encourage local processing. These changes illustrate the need for further strengthening of the institutional and analytic framework for the formulation of policy.

Privatization and Commercialization. As a part of its efforts to restructure the economy through the SAP, Nigeria has embarked upon comprehensive reform of its ailing public sector enterprises. A Technical Committee on Privatization and Commercialization (TCPC) has been set up to prepare and supervise the implementation of this program. Seventeen public enterprises, mainly in agro-industries, were privatized shortly after the program was announced in 1986, while the first public offer was made in February 1989. As of February 1990, over 100 million shares in 16 other public enterprises had been sold. Most commercial enterprises remaining in the federal public sector are expected to become fully or partially commercialized, i.e., to operate without any financial support from the government or, at least, to generate enough revenue to cover their operating expenses.

Private Investment Policy. A major liberalization of the rules governing foreign participation in new enterprises took place in 1989, with up to 100 percent foreign equity permitted in most manufacturing activities. The Industrial Development Coordinating Committee (IDCC), an interministerial body, has been empowered to become a one-step approval center for new ventures in order to reduce delays in receiving approval for setting up a new business. In addition to all other initial approvals, IDCC is now responsible for issuing initial expatriate quotas; in a departure from earlier arrangements, firms are now entitled to an automatic quota linked to capitalization.

Fiscal Policy. The stance of federal fiscal policy has varied over the past three years. The deficit to GDP ratio was 3 percent in 1986 but rose to 9 percent in 1987, although it was partly financed from external sources in contrast to the immediately previous years. The 1988 budget was deliberately reflationary, and the deficit was held to just under 8 percent of GDP only by a significant reduction in budgetary releases in the second half of the year. The 1989 budget was more conservative. While extra-budgetary expenditures were conceded at mid-year to finance a relief package following anti-SAP demonstrations and riots, and while debt service was higher than in previous years, revenues were also much higher than expected due to more favorable oil exports and further devaluation of the naira. Most of the additional revenues were set aside in a suspense account and not distributed during the year. Consequently, although the budget deficit in 1989 was 6.5 percent of GDP (including interest as owed before rescheduling), the impact on domestic borrowing was largely offset by these undistributed revenues and by increased external financing (including rescheduling credits). Bank financing of the federal budget deficit is projected to decrease from 1.5 percent of GDP in 1989 to 0.7 percent in 1990.

Monetary Policy. Monetary policy was tight in the early years of the adjustment program, and inflation was held in check, but the situation shifted in 1988 as the impact of the expansionary budget coupled with lower interest rates and more generous credit ceilings were quickly reflected in rising prices. Despite a shift in the stance of policy at mid-year, net domestic credit rose by 25 percent and broad money by 34 percent. Monetary policy was tightened in 1989, and the government over-performed on its monetary targets. The growth in M_2 was only 11 percent for the year. The tightening of monetary policy in mid-1989 also boosted nominal interest rates. In late 1989, the Central Bank of Nigeria (CBN) launched an auction system for sales of treasury bills and certificates and increased the minimum rediscount rate from 12 to 18 percent. These measures, coupled with the tighter credit stance, led to a sharp correction of market interest rates, which have risen to nearly 30 percent for the prime lending rate and to over 20 percent for deposits. Taking the most recent 12-month inflation rate of 16 percent through March 1990, real interest rates are positive at present. The government intends to maintain a tight monetary stance in 1990 to reduce inflationary pressures. Broad money is targeted to grow by 16 percent, and net domestic credit by slightly less.

The Impact of Structural Adjustment

There is considerable evidence throughout the economy of program-related changes. Domestic currency prices for exports have risen sharply, and there is now a more economically-rational allocation of foreign exchange across competing uses. The replacement of the import licensing system and foreign exchange controls with a system of protection based on tariffs and a more realistic exchange rate has greatly rationalized the incentive framework. In turn, these changes have produced notable responses. Tree crop cultivation has witnessed a resurgence, and manufacturers are taking advantage of the new relative price structure. Output, investment, and employment in the export sector have picked up. Producers in all sectors are increasingly seeking ways to economize on imported inputs and to source their input needs locally. The shift in relative prices is also changing consumer demand patterns. Despite these positive signs, however, the private sector's investment response has been slow, reflecting the turbulence in macroeconomic policy, continued resource constraints, and increasing uncertainties engendered by the transition to civilian rule scheduled for 1992. These uncertainties were underlined by an aborted coup attempt in April 1990.

Output. During 1987, the first full year after the adoption of the SAP, overall GDP declined by 6.3 percent. There was a significant drop in crude oil output related to changes in OPEC production quotas, and agricultural production fell by almost 8 percent because of adverse weather conditions. Manufacturing output, however, rose by 5.1 percent. In 1988, real GDP grew by 5.2 percent. Agricultural output rose by an estimated 5.5 percent, reflecting both the better weather in 1988 and the favorable impact of rising producer prices on both the traditional export crops and the staple food crops. Manufacturing output rose by 6.5 percent in 1988, and the oil sector grew by 9.2 percent. Preliminary estimates for 1989 suggest continued growth in agriculture and oil but not in manufacturing. Overall GDP is estimated to have grown by 8.0 percent due primarily to the 16.5 percent growth in petroleum output, while non-oil GDP grew by 3.4 percent. The preliminary outlook for 1990 is for 3.9 percent growth in non-oil output.

Agriculture. The SAP's measures to revitalize agriculture and traditional exports centered on increasing farmgate prices, through the changes in trade policy, the exchange rate reform, and the abolition of the commodity boards. With regard to cash crops, the SAP had an immediate impact on production and exports, based on improved harvesting and marketing of existing treecrops. In addition, significant investments in rehabilitation and new plantings are underway. Food crop production has taken longer to respond. Prices initially did not rise, as food stocks were abundant at the start of the SAP, and the 1986 harvest was good. But poor weather in 1987 led to a decline in almost all crop output, and prices jumped. In 1988, the higher prices and good weather led to a recovery of output, but the tendency toward increased local sourcing of raw materials added to demand and prices rose further. Preliminary indications are that agricultural output increased by 4.0 percent in 1989, especially the root crops, yam and cassava, while grain output, particularly maize, may have fallen slightly due in part to shortages in delivered fertilizer. Normal weather in 1990 should result in a 3.4 percent increase in production.

Industry. While the manufacturing sector received a major shock in the form of shifting incentives as a consequence of the SAP, the overall outcome has been positive. The SAP eliminated much of the bias against export activities, and the combined effect of the depreciation of the exchange rate and the rationalization of the protection system has improved the competitiveness of activities relatively dependent on local resources. Companies involved in the production of tires and tubes, textiles, furniture, tanneries, paper, and cement have been doing well. Assembly type activities have suffered because they no longer have access to imported inputs at artificially low prices. From very depressed levels in 1986, manufacturing output increased by 5.1 percent in 1987 and by 6.5 percent in 1988. Capacity utilization fell immediately after the introduction of the program, but rose to 40 percent in 1988 from 31 percent in 1987. In the first half of 1989, however, capacity utilization fell back to 31 percent, largely due to the decline in foreign exchange availability. There was a recovery in the second half of the year, reflecting the increased availability of foreign exchange but tempered by the tight stance of monetary policy. Taking the year as a whole, preliminary estimates suggest manufacturing output did not rise above its 1988 level in 1989, but should resume growth in 1990.

Prices. The impact of the SAP on prices was moderate in 1986, even though all price controls were abolished and the naira was devalued substantially. This was largely because the previous controls had become increasingly ineffective, and retail prices already reflected scarcity rents and the premium on foreign exchange. While inflation was contained in 1986 and 1987, prices jumped by 49 percent in 1988. Food prices, which have a weight of 70 percent in the consumer price index, led the increase, as the poor agricultural outturn aggravated the effect of the expansionary macroeconomic policy stance. Prices again increased sharply in early 1989, but, reflecting the mid-year tightening of monetary policy, fell in the second half of 1989 by 6 percent, resulting in a 28 percent increase in prices over December 1988. The rate of price increase continued to decline in 1990, and the monthly price index at the end of March 1990 was only 16 percent above the index in March 1989. With continued fiscal and monetary policy restraint, inflation is expected to stabilize at 10 percent per year by 1991.

Employment. The impact of the SAP on employment has been favorable. Intervening fluctuations notwithstanding, the statistical evidence points to employment growth slightly above 3 percent per annum since the start of the program, largely attributable to better rural employment opportunities. However, overall employment needs to rise by 3 percent per year simply to keep pace with labor force growth. Hence the estimated rise in employment has been adequate to reduce the unemployment rate only modestly. Indeed, in the first 3 quarters of 1986, just prior to the introduction of the SAP, the unemployment rate averaged 6 percent — some 10 percent in the urban sector and 5 percent in the rural sector. By the equivalent period in 1989, the overall unemployment rate had fallen to 4 percent — 9 percent in the urban sector and 3 percent in the rural sector. Although improving, the urban unemployment situation remains worrying, particularly when disaggregated by age and education. Unemployment is heavily concentrated among those under 20 years of age, and a disproportionate number of the unemployed are secondary school leavers. This pattern is explained largely by structural factors. The supply of high school graduates and college graduates has increased dramatically in recent years, while most job growth has been for farm laborers, reflecting the shift of incentives toward agriculture and rural based activities. Indeed, reverse migration to rural areas of older workers with little or no education has kept the unemployment rate for this group low, even in urban areas.

Social Dimensions. Mirroring the decline in oil revenues, there was a serious deterioration in the standard of living of many Nigerians during the 1980s. In the beginning of the SAP period, this was due mostly to increases in prices of luxury imports, which affected the middle and upper classes. But the situation changed radically starting in late 1987, as food prices jumped in response to that year's weather-related poor harvest and the expansionary financial policies adopted in 1988. Other prices also rose rapidly beginning in 1989, following the sharp depreciation of the exchange rate. In total, it is estimated that urban real wages declined by 12 percent per annum in 1988 and 1989. Meanwhile, per capita income in the rural sector grew by 5 percent per annum. While some redistribution from the urban to the rural sector is inevitable if the relative price of agricultural products is to increase, the government has taken steps to minimize the socially disruptive consequences through a relief program.

External Financial Position

Balance of Payments. Nigeria's balance of payments is dominated by developments in the oil market, debt service, and capital inflows. In 1986, oil exports fell to US$6.4 billion, or about a quarter of their 1980 value. In 1987, oil exports rose modestly to US$7 billion, as prices recovered somewhat, but fell back to US$6.5 billion in 1988 as prices fell again. Oil export revenues rose sharply in 1989, to US$8.8 billion, reflecting increases in both prices and production. Import volumes declined steadily between 1981 and 1986, falling by a further 23 percent in 1987 and 8 percent in 1988. Reflecting the rise in oil receipts, and increased investments in the oil sector, they rose by 12 percent in 1989. Debt service payments increased from US$1 billion in 1987 to over US$2 billion in 1988 and to US$3 billion in 1989, about 28 percent of export receipts. Based on actual interest payments, the current account deficit in 1988 was US$1.2 billion or about 4 percent of GDP. This deficit was almost equally financed by a drawdown in reserves and a surplus in the capital account. The current account shifted into surplus in 1989. Coupled with a surplus on the capital account, this permitted an increase in international reserves of US$1 billion, replenishing Nigeria's previously depleted reserve coverage to 11 weeks of imports of goods and services.

External Debt. Nigeria has been involved in major debt rescheduling exercises with its major creditors since the start of the program. Nigeria's first Paris Club agreement was signed in December 1986, and a follow-up agreement was reached in March 1989. Nigeria has signed the bilateral agreements under the 1989 protocol with its major creditors, although not all outstanding debt has been reconciled. Nigeria has indicated it will press for more concessional terms when it next meets with the Paris Club later this year. Nigeria has also had two London Club agreements. The 1986 agreement involved US$320 million in new money but this part of the agreement was never implemented. In April 1989, a new rescheduling agreement was signed. Under this agreement, the entire stock of medium- and long-term debt was rescheduled over a 20 year period with 3 years' grace. The letters of credit were rescheduled over 15 years. The so-called payable debt, i.e., arrears on interest and fees, was to be fully repaid by 1991. Recently, the Nigerians met with the London Club Steering Committee and requested a consolidation of all commercial bank debt into 30 year bonds at 3 percent interest.

Promissory notes arising from arrears on uninsured suppliers' credits extended in 1982 and 1983 were rescheduled in January 1988. All claims, including late interest, were amortized over a period of 22 years with 3 years' grace. The effective interest rate is 5 percent. The promissory notes became eligible for a debt conversion program in 1988. Ten debt auctions had been held by December 1989, with note purchases totalling US$287 million in face value, at an average discount of 47 percent. The debt conversion scheme is now open to commercial bank debt; approximately US$10 million was converted through end-1989.

Consultative Group. Following the Bank's reinstatement of Nigeria's IDA eligibility in September 1988, donor interest in Nigeria increased. An informal aid meeting took place in January 1989. Participants pledged US$600 million in financial support, which closed the 1989 financing gap. In November 1989, the Consultative Group (CG) for Nigeria met for the first time. US$600 million was pledged, of which US$300 million is expected to be disbursed this year. The CG is tentatively scheduled to meet in November 1990 to discuss the financing of the 1991 program.

Macroeconomic Outlook

With a continuation of recent economic policies — most particularly, the monetary and fiscal constraint needed to avoid a resurgence of inflation — and continued improvements in economic efficiency, there are good prospects for positive, albeit modest, increase in per capita income in the short and medium term, notwithstanding the limitations imposed by the foreign exchange constraint. However, this will require substantial inflows of foreign capital to offset large projected debt service payments and thereby to permit growing export revenues to be translated into sufficient real import growth to sustain increases in per capita consumption while increasing the investment/GDP ratio to levels more consistent with long-term sustainable growth. Agriculture should grow close to its medium term trend rate of 3.4 percent per annum, while the manufacturing sector is expected to recover with the higher level of imports. The average annual growth in non-oil GDP over the 1990-97 period is projected to be higher than in 1989. The capacity to produce crude oil is also projected to grow as a result of a significant increase in oil sector investment, and oil export volumes are expected to rise from an estimated 1.38 mb/day in 1989. This will ease the balance of payments situation somewhat, but there will be a continuing need for further reschedulings, other debt relief, and new money, especially in the 1990-93 period.

In the longer-term, sustainable growth will depend heavily on increasing the level of investment and hence of savings. To achieve sustainable growth, we estimate that gross investment will need to increase from 12 percent of GDP in 1988. Increasing the private sector's demand for investment will in turn depend on domestic economic policy. The key elements will be macroeconomic stabilization, the broad structure of relative prices (particularly, the exchange rate and trade policy), the efficiency of the public sector (particularly the efficiency of public investment and parastatal management), and creating a better climate for private sector growth (e.g., reduced regulation and complementary rather than competitive public investments). To ensure adequate domestic financing for this investment, the government will need to maintain fiscal restraint to avoid "crowding out" the private sector and to continue reforms in the financial sector to mobilize and to allocate efficiently available private savings. On the external financing front, amounts needed will require increased support from all sources, including more concessional rescheduling from the Paris Club, a debt/debt service reduction program with the London Club, and access to increased levels of direct support from bilateral and multilateral sources. The Consultative Group established in 1989 is expected to provide a valuable forum for the major official sources of support to monitor policy performance by the Nigerians and to coordinate external support. This coordination will be particularly important over time as the fluctuations in external developments, particularly in world oil prices, alter the short-term need for external assistance.

NIGERIA

Mid-1988 Population (mils.)	110
1988 Per Capita GNP in US$:	280

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	9.1	3.5	-1.6	5.2	8.0
Net Indirect Taxes	7.9	2.2	3.1	2.0	2.7	2.5	..	..	..	..	..
Agriculture	49.4	33.1	25.3	29.1	33.3	29.3	2.8	-1.4	1.0	5.5	4.0
Industry	12.2	25.7	40.5	42.9	36.3	43.8	19.6	5.7	-3.2	8.5	12.9
(of which Manufacturing)	5.9	4.6	8.9	8.6	9.9	8.4	15.0	17.2	0.4	6.5	0.0
Services	30.5	39.0	31.0	26.1	27.7	24.3	6.6	5.4	-0.5	-2.2	3.8
Non-oil GDP	..	..	..	65.0	72.4	63.3	..	..	..	2.4	3.4
Resource Balance	-1.6	4.7	9.1	5.4	2.5	8.7	..	..	..	..	..
Exports of GNFS	12.6	18.1	26.1	32.5	26.4	35.3	10.9	6.8	-5.2	13.5	16.5
Imports of GNFS	14.2	13.4	17.1	27.0	23.9	26.6	11.0	17.1	-17.3	-2.6	11.4
Total Expenditures	101.6	95.3	90.9	94.6	97.5	91.3	8.4	9.0	-7.0	0.2	5.6
Total Consumption	88.0	75.9	70.5	82.5	85.1	78.7	5.9	10.1	-5.1	-0.3	5.0
Private Consumption	83.1	68.6	61.5	69.3	73.6	69.6	4.5	10.2	-5.5	2.6	7.7
General Government	4.9	7.2	8.9	13.2	11.6	9.1	16.7	9.1	-2.0	-15.6	-12.0
Gross Domestic Investment	13.6	19.4	20.5	12.0	12.4	12.6	15.2	6.6	-15.1	3.6	9.9
Fixed Investment	..	18.6	19.4	12.6	12.1	12.3	..	6.6	-15.0	-3.1	9.7
Changes in Stocks	..	0.8	1.0	-0.5	0.3	0.3	..	..	..	..	..
Gross Domestic Saving	12.0	24.1	29.5	17.5	14.9	21.3	24.9	4.4	-2.3	31.5	18.7
Net Factor Income	-3.5	-6.4	-3.7	-5.7	-6.5	-7.2	..	..	..	..	..
Net Current Transfers	0.0	-0.3	-0.4	-0.1	-0.1	-0.1	..	..	..	..	..
Gross National Saving	8.5	17.4	25.5	11.8	8.4	14.1	..	14.3	..	33.9	22.1

In billions of 1987 Naira	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	54	90	118	98	104	112	9.1	3.5	-1.6	5.2	8.0
Capacity to Import	13	41	140	32	29	38	16.9	13.5	-16.4	-10.4	33.7
Terms of Trade Adjustment	-16	-17	57	0	-7	-3	..	..	..	..	..
Gross Domestic Income	39	73	174	98	97	109	11.0	8.2	-7.4	-1.0	12.4
Gross National Product	45	64	90	93	97	104	6.1	4.7	0.0	4.3	7.2
Gross National Income	29	46	147	93	90	101	7.2	11.1	-6.8	-3.2	12.2

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices	36.5	86.1	90.7	100.0	138.0	196.2	7.1	19.0	17.1	38.0	42.2
Implicit GDP Deflator	48.0	78.4	77.9	100.0	126.7	192.5	8.3	16.2	11.8	26.7	51.9
Implicit Expenditures Defl.	40.8	65.5	77.6	100.0	137.3	200.0	8.2	10.9	18.2	37.3	45.7

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.5	2.5	3.4
Labor Force	..	..	..
Gross Natl. Income p.c.	4.5	8.4	-9.9
Private Consumption p.c.	1.9	7.6	-8.6
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.2	4.9	11.2
Marginal Savings Rates:			
Gross National Saving	42.0	44.3	142.8
Gross Domestic Saving	50.2	43.1	153.7
ICOR (period averages):	..	..	-14.3

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*	*1989*
Agriculture	72.1	70.1	68.1	..	..
Industry	10.2	10.9	11.7	..	..
Services	17.8	19.1	20.2	..	..
Total	100.0	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
Petroleum	178.6	116.1	116.1	100.0	108.9	128.6	24,942	12,203	6,385	6,994	6,458	8,802
Cocoa	69.7	70.3	79.1	100.0	105.0	107.0	606	310	297	388	352	283
Rubber	71.5	73.8	85.6	100.0	105.0	110.7	26	23	23	15	33	30
Other	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	73.5	17.5	24.7	100.0	123.5	135.3	382	30	79	366	547	589
Total Exports FOB	156.3	102.8	104.2	100.0	115.6	126.6	25,956	12,566	6,784	7,763	7,390	9,704
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	..	..	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	518.1	169.4	116.1	100.0	109.8	77.7	6,459	2,025	1,628	1,540	1,815	1,251
Other Intermed. Goods	..	..	..	..	..	..	4,388	3,941	3,135	2,154	2,485	3,057
Capital goods	250.0	152.8	110.0	100.0	70.0	93.0	5,464	3,199	2,703	2,696	2,024	2,640
Total Imports CIF	314.5	184.3	128.0	100.0	92.1	103.1	16,312	9,165	7,466	6,390	6,324	6,948

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	213.7	157.1	83.8	100.0	82.3	98.5
Merch. Imports Price Index	80.3	77.0	90.4	100.0	107.8	105.6
Merch. Terms of Trade	266.0	204.0	92.6	100.0	76.3	93.3

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	27,006	13,032	7,116	7,989	7,715	10,111
Merchandise	25,956	12,566	6,784	7,764	7,390	9,704
a. of which, Oil	24,942	12,203	6,385	6,995	6,458	8,802
Non-Factor Services	1,050	466	332	225	325	408
Imports of Goods & NFS	-17,648	-10,070	-8,536	-6,649	-6,982	-7,625
Merchandise	-14,735	-8,279	-6,742	-5,772	-5,713	-6,276
Non-Factor Services	-2,913	-1,791	-1,794	-877	-1,269	-1,349
Resource Balance	9,358	2,962	-1,420	1,340	733	2,486
Net Factor Services	-3,775	-2,066	-1,269	-1,394	-1,901	-2,068
of which, Interest /a/	-911	-1,292	-514	-552	-1,328	-1,401
Net Private Transfers	-409	-244	-151	-25	-38	-42
Curr. A/C Bal. before Off. Transf.	5,175	652	-2,839	-79	-1,206	376
Official Transfers	-167	-16	-21	1	25	85
Curr. A/C Bal. after Off. Transf.	5,008	636	-2,860	-78	-1,181	461
Long-term Capital	743	-765	625	1,307	279	329
Net Direct Investment /b/	-739	345	526	613	372	523
Net Long-Term Borrowing	1,482	-1,110	99	694	-93	-194
Other Items (net)	-1,207	825	1,384	-1,307	571	210
Net Short-Term	134	544	-1,815	-48	-280	-19
Net Other Capital N.E.I.	0	0	0	0	0	0
Errors & Omissions	-1,341	281	3,199	-1,259	851	229
Change in Reserves /c/	-4,545	-696	851	78	331	-1,000
Net IMF	0	0	0	0	0	0
Other Reserve Changes	-4,545	-696	851	78	331	-1,000
As Share of GDP:						
Resource Balance	9.1	3.3	-3.0	5.5	2.5	8.7
Interest Payments	0.9	1.4	1.1	2.3	4.6	4.9
Current Account Balance	4.8	0.7	-6.1	-0.3	-4.1	1.6
Memorandum Items:						
Reserves excl. Gold (mil. US$)	10,235	1,667	1,081	1,165	651	1,764
Reserves incl. Gold (mil. US$)	10,640	1,892	1,350	1,498	951	2,026
Official X-Rate (Naira/US$)	0.55	0.89	1.75	4.02	4.50	7.40
Index Real Eff. X-R Base 1980	100.00	165.96	90.74	28.97	28.57	23.78
GDP (millions of current US$)	103,312	90,310	46,613	24,520	28,949	28,724

NOTES:

All balance of payments data are from IMF and World Bank staff estimates. Stock of reserves data are from the IMF IFS with gold valued at London market rates.

a/ After rescheduling.
b/ 1989 excludes oil equity sale.
c/ Negative numbers imply reserve increases.

I. Federal Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Total Revenue	..	11.2	14.7	17.5	14.6	16.9	8.2	33.3	43.3	11.6	87.0
Total Expenditure	..	13.6	17.4	27.4	26.0	24.1	..	29.1	90.1	26.7	49.1
Overall Balance (commitments)	..	-2.5	-2.7	-10.0	-11.4	-7.1	..	10.0	345.5	53.1	0.7
Adjustments	..	..	-0.4	0.7	3.7	0.6	..	..	-333.3	585.7	-75.0
Official Capital Grants	..	..	..	..	..	..	-34.1	..	..	..	..
External Borrowing (net)	..	-0.5	-0.4	5.5	0.9	3.6	35.8	-25.0	-1900.0	-77.8	541.7
Domestic Financing (net)	..	2.2	3.4	3.8	6.9	2.3	..	55.6	32.1	143.2	-45.6

Source: IMF staff estimates.

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	1,079	-1,167	105	748	209	-163	4,205	12,934	19,046	28,026	28,630	31,893
Official Creditors	54	-131	590	333	150	824	953	2,183	8,532	11,446	10,984	15,904
Multilateral	48	240	458	268	57	370	571	1,428	2,230	3,052	2,839	3,134
of which IBRD	39	230	446	262	50	251	517	1,357	2,137	2,939	2,728	2,906
of which IDA	0	-1	-1	-1	-1	-1	38	35	34	32	31	30
Bilateral	6	-371	132	65	93	454	383	755	6,303	8,394	8,145	12,770
Private Creditors	1,025	-1,036	-485	415	59	-987	3,252	10,751	10,513	16,580	17,645	15,989
Commercial Banks	1,033	-1,162	-495	396	-67	-355	3,234	4,009	3,062	6,658	6,374	6,076
Other Private	-8	126	10	19	126	-632	18	6,742	7,451	9,922	11,271	9,913
Private Non-guaranteed	388	-35	0	-48	-7	-50	1,097	1,416	400	352	337	276
Total LT	1,467	-1,202	105	699	203	-213	5,302	14,350	19,446	28,377	28,967	32,169
IMF Credit	0	0	0	0	0	0	0	0	0	0	0	0
Net Short-Term Capital	-3	-770	-1,256	-2,056	90	-705	3,553	4,974	3,718	1,662	1,752	1,047
Total incl. IMF & Net ST	1,464	-1,972	-1,151	-1,357	293	-918	8,855	19,324	23,164	30,039	30,719	33,216

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	9.75	9.46	10.99	10.36	9.42	9.03
2. IDA as % of Total	0.72	0.24	0.17	0.11	0.11	0.09
3. IBRD+IDA as % of Total	10.47	9.70	11.16	10.47	9.52	9.13
Share of LT Debt Service						
1. IBRD as % of Total	8.95	3.05	12.60	33.75	21.63	9.03
2. IDA as % of Total	0.09	0.04	0.08	0.14	0.07	0.04
3. IBRD+IDA as % of Total	9.04	3.09	12.68	33.89	21.70	9.13
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	19.63	110.11	273.26	355.21	375.47	318.15
2. IMF Credit/Exports	0.00	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/Exports	13.16	38.17	52.25	20.80	22.71	10.35
4. LT+IMF+ST DOD/Exports	32.79	148.28	325.50	376.01	398.18	328.50
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	5.13	15.89	41.72	115.73	100.06	111.99
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/GDP	3.44	5.51	7.98	6.78	6.05	3.65
4. LT+IMF+ST DOD/GDP	8.57	21.40	49.69	122.51	106.12	115.64
Debt Service /Exports						
1. Public & Guaranteed LT	1.81	29.71	23.31	10.41	24.23	28.80
2. Private Non-guaranteed LT	0.97	1.28	1.12	1.90	1.50	1.91
3. Total Long-Term Debt Service	2.78	30.99	24.44	12.32	25.73	30.71
4. IMF Repurchases+Serv. Chgs.						
5. Interest only on ST Debt	1.37	3.35	4.22	0.50	0.52	0.28
6. Total (LT+IMF+ST Int.)	4.15	34.34	28.65	12.82	26.25	30.99

Organization of the Eastern Caribbean States (OECS)

The OECS is a common market formed in 1968 and belongs to the larger 12-country regional integration organization—Caribbean Community (CARICOM). The OECS countries also share a common currency (the East Caribbean dollar) and central bank. The East Caribbean dollar is linked to the U.S. dollar (at EC$2.7 = US$1.00 since July 1976) and, notwithstanding the depreciation of the U.S. dollar in recent years, has appreciated in varying degrees in each of these countries, depending on their trading partners. Any realignment of the exchange rate is possible only by a unanimous decision of all member states. The benefits associated with the OECS common market and currency arrangements are accompanied by limits on the countries' freedom to act independently in exchange rate, trade and monetary policies. The brunt of economic management has consequently fallen on fiscal policy.

Development in the OECS countries has been taking place in association with a limited and fragile economic base. In addition to being prone to repeated natural disasters (hurricanes), their narrow resource base, "sand and sea" and a few export commodities, and relative open economies (with export/GDP ratios ranging from 50 to 90 percent) make them vulnerable to external vicissitudes. The problem is compounded by the fact that a large share of the exports are of agricultural origin which, besides the adverse effects of plant disease and pests on monoculture, are directed mainly to preferential markets. Price fluctuations and any decline in export outlets can impart a major set back to the economies. While diversification efforts are underway, progress has not been sufficient to provide economic resilience. Therefore, the OECS countries have continued to depend heavily on external capital inflows, particularly grants and concessional finance, to narrow the resource gap.

The economies, have overall, performed well in most cases. The OECS countries did not borrow excessively following the oil shocks of the 1970s and hence were less vulnerable to the recession of the early 1980s. Between 1980 and 1987, they achieved an average rate of economic growth of 4.5 percent per annum, with an acceleration to 6.4 percent in 1988. Their balance of payments show deficits in the current account covered mostly by foreign aid and private investment but sometime by external borrowing on commercial terms, such as in Antigua and Barbuda. Some of the countries are heavily dependent on the preferential UK market for bananas.

Efforts to promote agricultural diversification have been facing increasing difficulties. First, the higher relative price of bananas vis-à-vis non-banana crops has prompted farmers to shift resources to banana production; in Grenada, the highly profitable nutmeg farming has encouraged farmers to direct resources to nutmeg production. Second, increases in construction and tourism activities in some of the countries are generating labor market pressures which, in turn, result in rising real wages which affect agriculture. External debt does not pose serious problems except for Antigua and Barbuda; partly because of the relatively high degree of concessionality in aid inflows, the external debt service ratio is below 10 percent in all countries except for Antigua and Barbuda (17 percent). However, the ratio of debt service payments to public sector current revenues is significantly higher (particularly in Antigua and Barbuda, Dominica and Grenada), and borrowing on conventional terms needs close monitoring and restraint. Fiscal performance has shown an improving trend in recent years; in most cases, it is the result of improved operations by both the central government and public enterprises. Nevertheless, budgetary deficits are still prevalent. Provided below are brief country-by-country assessments.

Country Assessments

Dominica. The GNP per capita stood at US$1,670 in 1988. The economy was in a recovery phase during 1980-86 following devastating hurricanes in 1979 and 1980. GDP grew by over 6 percent in real terms during 1986-88 with particularly strong performance in agriculture and tourism. Increases in the consumer price index have slowed considerably, averaging about 2 percent per year during 1984-88. However, consumer prices accelerated to an annualized rate of 7.4 percent during the first nine months of 1989. Public sector finances have strengthened significantly since 1980. The public sector's current account deficit of 3.5 percent of GDP in fiscal 1982 swung to a surplus of 9 percent of GDP in fiscal 1989 in part due to strict controls over central government current expenditures, such as the elimination of automatic wage increases to civil servants and restraints on the purchase of goods and services. The balance of payments current account deficit, which was 35 percent of GDP in 1981, declined to 13 percent in 1988.

In 1989, Hurricane Hugo hit the country with devastating effects on agriculture. It has been estimated that 70 percent of the banana production has been lost. The main policy issues are the need to sustain public sector savings and to develop a diversified and competitive economic structure. Dominica's medium-term prospects, given successful implementation of a structural adjustment program, are favorable although development efforts in the last few years involved a rapid accumulation of external debt. The debt outstanding and disbursed stood at US$55 million or 39 percent of GDP at the end of 1988. Given Dominica's relatively weak balance of payments situation resulting from its heavy dependence on banana exports (70 percent of total exports of goods) and debt service obligations over the medium term, the country is likely to remain dependent on highly concessionary capital flows for most of its investment financing over the medium term.

St. Kitts and Nevis. The per capita GNP stood at US$2,770 in 1988. Its real GDP grew at over 5 percent per annum on average from 1982 to 1988. Weak performance in sugarcane production caused by the reduction in import quotas in the US was more than compensated by strong growth in tourism and construction during 1984-88. In 1989, Hurricane Hugo hit the country, producing severe losses to agriculture. In addition, the hurricane caused significant damage to the fishing industry in Nevis. The balance of payments current account deficit increased from about 9 percent of GDP in 1987 to 15 percent in 1988, reflecting increases in capital inflows (mainly private investment plus net official borrowing) which rose from 9 percent of GDP in 1987 to 15 percent in 1988. These inflows, in turn, supported a 19 percent rise in imports of goods in 1988. The current account surplus of the consolidated public sector finances declined from about 7 percent of GDP in 1987 to about 5 percent in 1988. A 5 percent reduction in the corporate tax in 1988, together with increases in tax-exempt imports, were partially responsible for the decline of current revenues in real terms. At the same time, current expenditures rose because of a 20 percent public sector wage increase awarded in 1988, higher expenditures of goods and services, and rising operating losses of the Electricity Department.

The recent growth in tourism and construction, and the prospects for continuing development of both sectors over the medium term could strain the limited labor resources and result in additional wage and cost pressures, since it will be difficult for the government to reduce the wage bill while retaining qualified civil servants. Moreover, further increases in real wages are likely to affect agricultural and manufacturing production. External debt in 1988 was US$26.4 million or 22 percent of GDP and the external debt service was equivalent to about 3 percent of exports of goods and services. The ratio of debt service to public sector current revenues approximated 8 percent. Coupled with the uncertain sugar market and the fledgling nature of tourism flows, these ratios suggest that St. Kitts and Nevis should exercise caution in contracting further external debt over the medium-term.

Grenada. The GNP per capita stood at US$1,710 in 1988. Following a poor performance in 1983, primarily because of political instability, real GDP in Grenada rose at an average annual rate of over 6 percent in 1984-88 reflecting growth in tourism, construction, distribution, trade and utilities. Inflation declined from 7 percent in 1983 to 4.5 percent in 1988. The main policy issue relates to improving the financial operations of the public sector. Current expenditures and revenues of the central government were roughly in balance in 1983-85, but the fiscal situation deteriorated in 1986, with the current account deficit reaching about 2 percent of GDP. In early 1986, the government adopted a comprehensive tax reform program, replacing most taxes with a value added tax. However, starting-up problems in the administration of the new system as well as several tax exemptions and preferential rates resulted in lower than expected revenues.

On the expenditure side, the government has hitherto not carried out the planned public sector retrenchment program that would have reduced central government employment by about 25 percent. In 1984-86, there was substantial budgetary support by the U.S. Agency for International Development and capital expenditures were financed mostly by external grants. During 1987-88, external grants both (current and capital grants) declined considerably from 20 percent of GDP in 1986 to 6 percent in 1987 and 4 percent in 1988. This assistance is expected to continue to decline in the coming years, requiring a significant adjustment in the fiscal area.

Further measures are also needed to improve the incentive system and the allocation of resources by eliminating domestic price controls and quantitative restrictions on imports. The balance of payments exhibited a large current account deficit in 1988 (15 percent of GDP) covered mainly by private direct investment flows. Total external debt stood at US$80 million at the end of 1988 (equivalent to 48 percent of GDP) largely reflecting outstanding loans related to the airport, electricity and telecommunication projects and a number of loans from the Caribbean Development Bank for the directly productive sectors and roadways. The debt service was equivalent to 10 percent of exports of goods and services or 16 percent of public sector current revenues at the end of 1988. A new government was elected in March 1990 and has stated its intention to reduce domestic and external imbalances.

St. Lucia. The GNP per capita stood at U$1,670 in 1988. During 1982-86, real GDP in St. Lucia grew by almost 5 percent per year on average, fueled by the growth in export agriculture and manufacturing, and tourism. But in 1987, the economy witnessed a slowdown owing to a drought which affected banana output—the country's principal export crop; GDP grew by only 2 percent in real terms. In 1988 real GDP growth rebounded to 7 percent as a result of significant increases in agriculture (24 percent) and construction (14 percent). Inflation (as measured by the CPI) declined from 5 percent in 1982 to about 1 percent in 1988 as a result of a slower rise in import prices. The public finances improved noticeably and public sector savings rose from virtually zero in 1982 to about 15 percent of GDP in 1988. The deficit in the current account of the balance of payments narrowed from 27 percent of GDP in 1982 to 5 percent in 1988.

The main macroeconomic issue faced by the government is to achieve consistency between the country's infrastructure needs and macroeconomic stability. The government launched an ambitious public sector investment program for fiscal 1990-91 which emphasizes infrastructure development (power generation, water supply, roads and airport expansion). The program proposes to increase public investment, from 13 percent of GDP in 1988/89. Although most of the projects have secured external financing, the program is likely to result in increased pressures on the labor market and on domestic prices. On the sectoral front there are indications that the banana boom has been hampering diversification (e.g., tourism services and transportation); non-banana agriculture, is facing increased competition from the highly profitable banana production and is also being affected by shortages of labor and rising real wages. Assuming the continuation of a viable macroeconomic framework, of appropriate sector policies, and the absence of external shocks to the economy, real GDP per capita is expected to grow over the medium term. St. Lucia's debt service payments remain manageable (2 percent of exports of goods and services and 5 percent of public sector current revenues in 1988). The total outstanding and disbursed debt was 20 percent of GDP in 1988.

St. Vincent and the Grenadines. The GNP per capita stood at US$1,200 in 1988. Real GDP grew at slightly above 5 percent per year on average during 1980-85, mainly because of the strong recovery of agriculture, following two major natural disasters, and the expansion of transport and communications as well as wholesale and retail trade sectors. During 1986-88, the annual average rate of growth of real GDP increased to 7 percent as a result of increases in agricultural production and construction. Public sector savings have improved substantially in recent years and stood at 9 percent of GDP in 1987. However, they fell to 5 percent of GDP in 1988 as a consequence of the weakening in current revenue collections reflecting the reduction in income taxes on export profits and the stagnation in import tax collection. The deficit in the current account of the balance of payments deteriorated from 3.5 percent of GDP in 1986 to 17 percent of GDP in 1987. In 1988 it is estimated to have decreased to 9 percent of GDP. These deficits reflect increases in net official borrowing (from US$5 million in 1986 to US$10.2 million in 1987 and US$10.7 million in 1988) which has financed imports.

St. Vincent and the Grenadines medium term growth prospects may be adversely affected by increases in minimum wages granted in 1989 (48-90 percent in manufacturing and 73-130 percent in agriculture). The country's debt outstanding and disbursed equalled 24 percent of GDP and the debt service ratio was about 3 percent in 1988 while debt service was 5 percent of public sector current revenues.

ST. LUCIA

Population ('000): (1988)	145
GNP per capita: US$ (1988)	1,540

	Amount (US$ mln. at current prices)	Growth Rate (%)						
	1989	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*
NATIONAL ACCOUNTS								
Gross Domestic Product	266.7	4.1	5.0	6.0	5.8	2.1	6.8	4.1
Agriculture	32.3	14.8	8.0	12.3	12.4	-4.3	24.1	0.9
Industry	44.5	-5.0	-13.7	11.4	7.5	5.6	7.3	9.6
Services	126.2	5.1	10.5	3.2	3.8	2.9	2.5	3.3
Consumption	..	..	..	..	..	..	..	..
Gross Investment	..	..	..	..	..	..	..	..
Exports of GNFS	..	..	..	..	..	..	..	..
Imports of GNFS	..	..	..	..	..	..	..	..
PRICES								
GDP at f.c. deflator (1977 = 100)		163.7	170.1	176.8	190.5	198.4	204.5	207.6
Exchange rate (EC$/US$)		2.7	2.7	2.7	2.7	2.7	2.7	2.7

	Share of GDP at Market Prices (%) (at current prices) a/							Average Annual Increase (%) (at constant prices)		
	1983	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1981-84*	*1984-86*	*1984-89*
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	3.3	5.6	5.0
Agriculture	13.1	13.1	15.0	18.6	18.5	18.8	15.9	10.2	10.9	8.9
Industry	19.5	19.9	19.8	19.2	19.4	20.2	21.9	-4.1	1.7	4.6
Services	67.4	67.0	65.2	62.3	62.1	61.0	62.2	4.7	5.8	4.3
Consumption	..	..	..	..	..	..	..	...	...	...
Gross Investment	..	..	..	..	..	..	..	...	...	...
Exports of GNFS	60.3	71.9	77.2	91.3	84.7	96.6	..	...	...	...
Imports of GNFS	84.5	93.5	94.2	99.3	99.6	107.5	..	...	...	...
	138.7	155.6	172.9	200.3	219.6	245.8	..			
Gross Domestic Savings	..	..	..	..	..	..	..	...	...	...

PUBLIC FINANCE (Consolidated Public Sector)	As % of GDP			
	1986	*1987*	*1988*	*1989*
Current Revenue	38.0	38.8	42.0	44.3
Current Expenditure	30.0	27.9	25.9	29.0
Surplus (+) or deficit (-)	8.1	10.9	16.0	15.4
Overall Balance	-3.9	-0.7	1.3	0.5
Grants	3.3	4.5	2.8	1.4
Foreign Financing (net)	0.5	0.8	2.1	4.5
Domestic Financing	-0.1	-4.3	-4.7	-5.9
External Arrears	0.2	-0.4	-1.5	-0.4

a/ Sectors are expressed at factor cost and will not add to GDP at market prices due to exclusion of net indirect taxes and subsidies.

	Amount (US$ mln. at current prices)	Composition of Merchandise trade (%) (at current prices)		Average Annual Increase (%) (at constant prices)		
	1989	1984	1989	1981-84	1984-86	1984-89
EXTERNAL TRADE						
Merchandise Domestic Exports	111.9	100.0	100.0	..	..	..
Bananas	58.3	49.7	52.1	25.7	26.7	17.4
Other	53.6	50.2	47.9	..	..	..
Merchandise Imports	265.9	100.0	100.0	..	..	..
Food	55.2	23.9	20.8	..	..	..
Chemicals	87.0	32.8	32.7	..	..	..
Manufactured Goods	15.2	11.2	5.7	..	..	..
Capital Goods	38.0	14.5	14.3	..	..	..

	(In millions of US dollars at current prices)					
BALANCE OF PAYMENTS	1983	1984	1985	1986	1987	1988
Exports, GNFS	83.7	111.9	133.5	182.8	186.1	237.3
of which: Merchandise	47.5	47.8	52.0	82.9	79.6	118.7
Imports, GNFS	117.2	145.5	162.8	198.9	218.8	264.3
of which: Merchandise	106.8	118.5	125.0	154.8	179.2	221.1
Net Factor Services	7.4	-3.3	-3.5	-4.0	-4.2	-4.2
Transfers a/	13.7	16.1	16.2	16.4	17.0	18.7
Current Account Balance	-12.4	-20.8	-16.6	-3.7	-19.9	-12.5
Direct Investment	10.0	12.0	19.0	19.5	20.0	24.0
Public Capital (net)	9.5	8.4	8.9	7.6	13.1	11.3
Grants	7.3	7.5	5.4	4.8	7.7	3.8
Loan Disbursements (net)	2.2	0.9	3.5	2.8	5.4	7.5
Disbursements	..	2.2	4.5	4.3	7.1	10.2
Amortization	..	1.3	1.0	1.5	1.7	2.7
Commercial Banks (net)	-5.5	1.9	-6.7	-11.3	-6.5	-12.8
Other Capital	-0.9	-0.5	-1.7	-0.7	3.4	-0.6
Errors and Ommissions	0.0	-1.6	2.7	-0.3	-0.3	1.6
Change in Reserves (- = increase)	-0.7	0.6	-5.6	-11.1	-9.8	-11.0
EXTERNAL CAPITAL AND DEBT						
Gross Disbursement	..	9.7	9.9	9.1	14.8	14.0
Official Grants (public capital)	7.3	7.5	5.4	4.8	7.7	3.8
Loans	..	2.2	4.5	4.3	7.1	10.2
External Debt Outstanding & Disbursed b/	25.5	28.7	29.6	32.7	40.7	47.4
Debt Service						
Total Service Payments	1.8	2.0	4.7	3.9	3.9	5.3
Payments as % of Exports, GNFS	1.6	2.5	3.5	2.2	2.1	2.2

a/ Private transfers.

ST. VINCENT

Population ('000): 122 (1988)	121								
GNP per capita: US$1100 (1988)	1,100								

	(US$ mln. at current prices)	Growth Rate (%)							
	1988	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
NATIONAL ACCOUNTS									
Gross Domestic Product	156.5	7.3	5.1	5.8	5.3	4.5	7.4	5.7	8.4
Agriculture	25.3	41.6	5.6	8.0	6.4	8.4	3.9	-5.0	23.9
Industry	30.4	1.9	4.2	4.0	3.5	3.1	9.5	8.4	5.3
Services	72.6	2.5	5.3	6.0	5.6	4.0	7.6	7.8	5.6
Consumption	..	..	..	..	..	..	..	..	..
Gross Investment	..	..	..	..	..	..	..	..	..
Exports of GNFS	..	..	..	..	..	..	..	..	..
Imports of GNFS	..	..	..	..	..	..	..	..	..
PRICES									
GDP at f.c. deflator (1977 = 100)		..	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Exchange rate (EC$/US$)		2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0

	Share of GDP at Market Prices (%) (at current prices) a/						Average Annual Increase (% (at constant prices)		
	1982	*1983*	*1984*	*1985*	*1986*	*1987*	*1981-84*	*1981-84*	*1984-86*
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	5.9	5.2	5.8
Agriculture	16.8	17.3	18.7	19.8	19.4	17.3	15.4	7.1	6.7
Industry	25.5	24.5	23.0	23.2	24.0	23.7	3.4	3.7	5.0
Services	57.7	58.2	58.3	57.0	56.6	59.0	4.9	5.2	5.8
Consumption	..	..	..	..	..	..	..	..	..
Gross Investment	..	..	..	..	..	..	..	..	..
Exports of GNFS	..	..	..	..	..	..	..	..	..
Imports of GNFS	..	..	..	..	..	..	..	..	..
Gross Domestic Savings	..	..	..	..	..	..	..	..	..

	As % of GDP		
	1985	*1986*	*1987*
PUBLIC FINANCE (Consolidated Public Sector - FY)			
Current Revenue	34.1	34.2	34.4
Current Expenditure	25.8	25.6	25.4
Surplus (+) or deficit (-)	8.3	8.6	9.0
Overall Balance	-0.7	-9.1	-7.4
Grants	4.6	7.9	4.9
Foreign Financing	0.1	5.8	5.4
Domestic Financing	-4.1	-4.6	-2.9

a/ Components are expressed at factor cost and will not add to GDP at market prices due to exclusion of net indirect taxes and subsidies.

	Amount (US$ mln. at current prices)	Composition of Merchandise trade (%) (at current prices)		Average Annual Increase (% (at constant prices)		
	1988.0	*1984*	*1988*	*1981-84*	*1984-86*	*1984-88*
EXTERNAL TRADE						
Merchandise Domestic Exports	83.9	100.0	100.0	...	...	...
Bananas	31.9	34.9	38.0	16.7	12.7	18.2
Other	52.0	78.0	62.0	...	...	...
Merchandise Imports	122.2	100.0	100.0	...	...	...
Food	27.9	28.3	22.8	...	...	...
Other Consumer Goods	45.1	31.0	36.9	...	...	...
Petroleum	5.5	8.6	4.5	...	...	...
Intermediate Goods	21.5	13.9	17.6	...	...	...
Capital Goods	22.2	18.2	18.2	...	...	...

	(In millions of US dollars at current prices)				
BALANCE OF PAYMENTS	*1984*	*1985*	*1986*	*1987*	*1988*
Exports, GNFS	72.7	82.4	87.1	72.0	107.5
of which: Merchandise	53.6	63.2	68.1	51.7	83.9
Imports, GNFS	86.2	89.3	101.7	108.5	134.2
of which: Merchandise	76.4	79.3	91.6	97.8	122.2
Net Factor Services	-3.0	-2.9	-3.5	-3.2	-3.4
Transfers a/	12.0	13.0	14.5	15.3	16.7
Current Account Balance	-4.5	3.2	-3.6	-24.4	-13.4
Direct Investment	1.4	3.5	0.0	0.0	0.0
Public Capital (net)	4.7	7.4	15.1	17.1	21.0
Grants	3.1	5.1	9.9	6.9	10.3
Net Loans	1.6	2.3	5.2	10.2	10.7
Commercial Banks (net)	2.4	-3.1	-5.3	-4.0	-11.2
Other Capital	1.1	-3.1	2.7	2.3	3.4
Change in Reserves (- = increase)	-5.1	-6.2	-11.9	5.4	-3.3
EXTERNAL CAPITAL AND DEBT					
External Debt Outstanding & Disbursed b/	21.5	22.4	25.2	31.0	37.9
Debt Service b/					
Total Service Payments	1.7	2.2	2.6	2.6	2.8
Payments as % of Exports, GNFS	2.3	2.7	3.0	3.6	2.6

a/ Private transfers only.
b/ Excludes debt to the IMF and ECCA but include publicly guaranteed debt. Fiscal year data.

DOMINICA

Population ('000): (1988)	81								
GNP per capita: US$ (1988)	1,650								

	Amount (US$ mln. at current prices)	Growth Rate (%)						
	1988	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
NATIONAL ACCOUNTS								
Gross Domestic Product a/	140.5	2.3	2.2	5.5	1.7	6.8	6.8	5.6
Agriculture	35.3	2.4	0.7	5.7	-2.5	18.9	4.9	6.3
Industry	17.3	0.5	-1.0	14.1	0.0	-5.3	9.3	7.7
Services	61.9	3.0	4.3	2.1	4.8	5.1	7.0	4.4
Consumption	..	..	..	..	..	..	..	..
Gross Investment	..	..	..	..	..	..	..	..
Exports of GNFS	67.9	..	..	..	..	..	..	..
Imports of GNFS	91.1	..	..	..	..	..	..	..

PRICES

	1982	1983	1984	1985	1986	1987	1988
GDP at f.c. deflator (1977 = 100)	162.9	175.8	187.3	203.0	215.6	224.5	233.4
Exchange rate (EC$/US$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7

	Share of GDP at Market Prices (%) (at current prices) a/							Average Annual Increase (% (at constant prices)		
	1982	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1981-84*	*1984-86*	*1984-88*
Gross Domestic Product, f.c.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	4.1	4.7	5.3
Agriculture	30.4	29.1	27.9	27.9	30.2	29.3	30.9	7.7	7.3	6.6
Industry	20.5	18.4	18.3	16.6	14.5	14.9	15.1	2.7	2.9	5.1
Services	49.1	52.5	53.8	55.4	55.2	55.8	54.1	3.0	4.1	4.7
Consumption	..	..	..	..	..	..	..	..	..	..
Gross Investment	..	..	..	..	..	..	..	..	..	..
Exports of GNFS	..	..	..	..	..	..	..	..	..	..
Imports of GNFS	..	..	..	..	..	..	..	..	..	..
Gross Domestic Savings	..	..	..	..	..	..	..	..	..	..

	As % of GDP		
PUBLIC FINANCE (Consolidated Public Sector)	*1986*	*1987*	*1988*
Current Revenue	36.7	36.3	35.4
Current Expenditure	27.7	27.2	26.4
Current Account Balance	9.0	9.1	9.0
Overall Balance	-1.6	-3.4	-5.2
Grants	6.3	8.2	-3.5
Foreign Financing	1.5	2.3	2.3
Domestic Financing	-6.2	-7.1	-3.5

a/ Components are expressed at factor cost and will not add to GDP at market prices due to exclusion of net indirect taxes and subsidies. Growth rates and shares of GDP are at factor cost.

	Amount (US$ mln. at current prices) 1988.0	Composition of Merchandise trade (%) (at current prices) 1984	1988
EXTERNAL TRADE			
Merchandise Domestic Exports	55.6	100.0	100.0
Bananas	38.4	43.4	69.1
Other	17.2	56.6	30.9
Merchandise Imports	87.5	100.0	100.0
Food	19.5	24.7	22.3
Other Consumer Goods	28.3	24.6	32.3
Petroleum	4.9	10.2	5.6
Intermediate Goods	16.7	14.7	19.1
Capital Goods	18.1	25.8	20.7

	(In millions of US dollars at current prices)					
BALANCE OF PAYMENTS	1983	1984	1985	1986	1987	1988
Exports, GNFS	35.7	36.9	38.3	53.9	59.5	67.9
of which: Merchandise	27.5	25.6	28.4	43.4	48.0	55.6
Imports, GNFS	50.1	58.4	60.1	59.0	69.8	91.1
of which: Merchandise	47.1	55.8	57.2	55.7	66.4	87.5
Net Factor Services	-1.5	-3.2	-5.3	-6.1	-5.1	-3.4
Transfers a/	5.0	6.3	6.5	6.7	7.6	8.4
Current Account Balance	-10.9	-18.4	-20.6	-4.5	-7.8	-18.2
Direct Investment	0.2	2.3	3.0	2.7	8.6	6.9
Public Capital (net)	9.0	16.1	18.8	15.0	14.8	12.4
Grants	4.4	11.3	14.3	10.8	9.4	8.9
Net Loans	4.6	4.8	4.5	4.2	5.4	3.5
Disbursement	5.7	5.4	5.2	5.4	7.7	5.2
Amortization	1.1	0.6	0.7	1.2	2.3	1.7
Commercial Banks (net)	-2.4	3.0	-0.8	-2.9	-12.7	-9.9
Other Capital	4.5	1.5	0.5	1.0	1.5	0.0
Errors and Ommissions	0.0	1.7	-1.5	-4.7	4.5	8.9
EXTERNAL CAPITAL AND DEBT						
Gross Disbursement (official)	9.0	16.1	18.8	15.0	14.8	12.4
Grants	4.4	11.3	14.3	10.8	9.4	8.9
Loans	4.6	4.8	4.5	4.2	5.4	3.5
External Debt Outstanding & Disbursed b/	28.9	32.2	37.6	43.5	53.2	55.3
Debt Service						
Total Service Payments	2.8	4.3	4.2	4.6	6.2	6.2
Payments as % of Exports, G&NFS	7.8	11.5	10.8	8.6	10.4	9.0
Average Interest Rate (%)	4.4	4.8	4.5	4.0	3.4	2.6

a/ Private transfers only.

b/ Excludes debt to the IMF and ECCA but include publicly guaranteed debt.

ST. KITTS AND NEVIS

Population ('000): (1988)	43
GNP per capita: US$ (1988)	2,770

	Amount (US$ mln. at current prices)	Growth Rate (%)					
	1988	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
NATIONAL ACCOUNTS							
Gross Domestic Product a/	119.2	-1.2	8.8	5.6	6.8	7.0	4.6
Agriculture	9.6	-18.4	4.3	-2.5	-1.7	2.6	4.2
Industry	25.0	-2.5	-0.4	1.7	7.2	8.3	8.7
Services	62.9	4.1	13.8	8.7	8.1	7.2	3.1
Consumption	..	..	..	..	..	..	..
Gross Investment	..	..	..	..	..	..	..
Exports of GNFS	73.3	..	..	..	..	..	..
Imports of GNFS	105.8	..	..	..	..	..	..
Gross Domestic Savings	..	..	..	..	..	..	..
PRICES							
GDP at f.c. deflator (1977 = 100)		154.1	165.1	168.6	196.0	204.1	216.3
Exchange rate (EC$/US$)		2.7	2.7	2.7	2.7	2.7	2.7

	Share of GDP at Market Prices (%) (at current prices) a/						Average Annual Increase (%) (at constant prices)	
	1983	*1984*	*1985*	*1986*	*1987*	*1988*	*1984-86*	*1984-88*
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	7.1	6.5
Agriculture	11.9	165.1	168.6	196.0	204.1	9.8	0.0	1.4
Industry	25.2	23.5	22.9	25.5	25.4	25.6	2.8	5.1
Services	62.9	64.5	67.6	64.3	64.3	64.5	10.2	8.2
Consumption	..	..	..	..	..	..	..	..
Gross Investment	..	..	..	..	..	..	..	..
Exports of GNFS	48.8	52.4	54.0	55.9	54.8	0.0	..	..
Imports of GNFS	90.8	82.1	80.9	79.6	86.6	0.0	..	..
Gross Domestic Savings	..	..	..	..	..	..	..	..

	As % of GDP		
PUBLIC FINANCE	*1986*	*1987*	*1988*
Current Revenue	29.9	30.7	29.1
Current Expenditure	25.8	23.8	24.5
Surplus (+) or deficit (-)	4.0	6.9	4.6
Capital revenue	0.8	1.4	1.2
Capital expenditure	7.8	11.0	13.2
Overall Balance	-2.9	-2.8	-7.4
Grants	2.4	2.8	2.0
External financing	-1.8	4.0	3.6
Domestic financing	2.3	-4.0	1.9

a/ Components are expressed at factor cost and will not add to GDP at market prices due to exclusion of net indirect taxes and subsidies. GDP growth at Factor Cost.

	Amount (US$ mln. at current prices)	Composition of Merchandise trade (%) (at current prices)	
	1988	*1984*	*1988*
EXTERNAL TRADE			
Merchandise Domestic Exports	30.3	100.0	100.0
Sugar	13.1	55.0	43.2
Other	15.3	41.7	50.5
Re-exports	1.9	3.3	6.3
Merchandise Imports	94.7	100.0	100.0
Food	21.4	23.5	22.6
Other Consumer Goods	36.2	34.4	38.2
Petroleum	5.0	10.5	5.3
Intermediate Goods	7.8	12.1	8.2
Capital Goods	24.3	19.5	25.7

BALANCE OF PAYMENTS	(In millions of US dollars at current prices)					
	1983	*1984*	*1985*	*1986*	*1987*	*1988*
Exports, GNFS	31.2	38.9	44.5	58.2	66.8	73.3
of which: Merchandise	18.2	21.1	21.7	27.3	28.0	30.3
Imports, GNFS	58.1	54.2	57.1	70.7	90.0	105.8
of which: Merchandise	51.9	49.7	51.4	63.0	79.4	94.7
Net Factor Services	1.0	1.2	0.2	0.7	1.4	2.4
Transfers a/	7.6	10.4	8.3	9.1	11.4	12.5
Current Account Balance	-18.3	-3.7	-4.1	-2.7	-10.4	-17.6
Public Capital (net)	3.5	7.2	4.1	1.3	6.7	7.1
Grants	2.7	1.8	2.3	2.3	2.9	2.3
Net Loans	0.8	5.4	1.8	-1.0	3.8	4.8
Disbursement	1.1	6.0	2.4	2.6	4.6	5.7
Amortization	0.3	0.6	0.6	3.6	0.8	0.9
Commercial Banks (net)	1.2	-4.0	-0.3	-3.1	-5.9	-0.7
Other Capital b/	14.9	2.2	1.9	7.5	8.9	11.3
Change in Reserves (- = increase)	-1.3	-1.7	-1.6	-3.0	0.7	-0.1

EXTERNAL CAPITAL AND DEBT						
Gross Disbursement	3.8	7.8	4.7	4.9	7.5	8.0
Grants	2.7	1.8	2.3	2.3	2.9	2.3
Loans	1.1	6.0	2.4	2.6	4.6	5.7
External Debt Outstanding & Disbursed c/	12.0	15.7	17.8	17.0	22.1	26.4
Debt Service						
Total Service Payments	0.6	1.0	1.5	4.5	1.5	1.9
Payments as % of Exports, G&NFS	1.9	2.6	3.4	7.7	2.2	2.6
Average Interest Rate (%)	3.2	2.5	5.1	5.3	3.2	3.8

a/ Private transfers only.
b/ Includes direct private investment and errors and ommissions.
c/ Excludes debt to the IMF and ECCA.

GRENADA

Population ('000): (1988)	100
GNP per capita: US$ (1988)	1,370

	Amount (US$ mln. at current prices)	Growth Rate (%)				
	1988	*1984*	*1985*	*1986*	*1987*	*1988*
NATIONAL ACCOUNTS						
Gross Domestic Product	166.5	..	7.2	3.5	7.8	6.8
Agriculture	26.7	13.1	-6.5	-0.5	8.6	2.2
Industry	23.5	-4.4	10.3	10.4	14.9	13.0
Services	79.6	5.7	7.2	6.0	3.1	4.0
Consumption	149.7	...	9.4	10.8	13.5	2.5
Gross Investment	54.7	...	5.9	48.2	0.6	0.9
Exports of GNFS	83.6	...	26.5	-5.2	-3.3	2.9
Imports of GNFS	121.6	...	20.8	26.3	5.8	-2.8
Gross Domestic Savings	16.7	...	...	...	...	...
PRICES						
GDP at m.p. deflator (1984 = 100)		100.0	103.9	101.1	101.6	106.1
Exchange rate (EC$/US$)		2.7	2.7	2.7	2.7	2.7

	Share of GDP at Market Prices (%) (at current prices) a/					Share of GDP at Market Prices (%) (at constant prices)	
	1984	*1985*	*1986*	*1987*	*1988*	*1984-86*	*1982-86*
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	6.1	6.3
Agriculture	20.1	18.0	18.8	21.7	20.6	0.6	1.0
Industry	14.8	15.9	16.0	16.9	18.1	12.2	12.4
Services	65.1	66.2	65.2	61.4	61.3	5.4	5.0
Consumption	97.2	95.7	95.2	93.9	89.9	11.2	9.0
Gross Investment	32.0	33.4	39.0	34.0	32.9	18.3	13.9
Exports of GNFS	38.8	45.7	52.1	52.3	50.2	6.0	5.2
Imports of GNFS	67.9	74.9	86.3	80.2	73.0	17.6	12.5
Gross Domestic Savings	2.9	4.3	4.8	6.1	10.0	...	...

	As % of GDP				
PUBLIC FINANCE (Consolidated Public Sector)	*1984*	*1985*	*1986*	*1987*	*1988*
Current Revenue	33.2	36.0	30.4	28.9	32.2
Current Expenditure	31.2	31.9	28.5	29.2	24.9
Current Account Balance	2.1	4.1	1.9	-0.3	7.3
Overall Balance	-25.4	-26.0	-25.5	-15.3	-12.1
Grants	25.1	25.0	20.1	6.4	3.8
Foreign Financing	4.4	-1.8	2.2	5.2	1.5
Domestic Financing	-5.1	0.6	1.4	1.9	5.2
Change in external arrears	1.1	2.1	1.7	1.8	1.6

a/Components are expressed at factor cost and willnot add to GDP at market prices due to exclusion of net indirect taxes and subsidies.

	Amount (US$ mln. at current prices)	Composition of Merchandise trade (%) (at current prices)		Average Annual Increase (%) (at constant prices)		
	1988	*1984*	*1988*	*1982-84*	*1984-86*	*1984-88*
EXTERNAL TRADE						
Merchandise Exports	32.8	100.0	100.0	...	...	...
Nutmeg	11.6	18.1	35.4	19.0	3.2	-3.6
Cocoa	3.2	22.5	9.8	-10.6	-10.2	-4.6
Bananas	4.7	15.9	14.3	-8.5	-8.7	-2.3
Other, incl. re-exports	13.3	43.4	40.5	...	...	...
Merchandise Imports	104.9	100.0	100.0	...	...	...
Food	24.4	29.4	23.3	...	...	...
Other Consumer Goods	18.2	23.6	17.3	...	...	...
Petroleum	5.1	11.4	4.9	...	...	...
Intermediate Goods	36.3	16.6	34.6	...	...	...
Capital Goods	20.9	19.1	19.9	...	...	...

BALANCE OF PAYMENTS	(In millions of US dollars at current prices)				
	1984	*1985*	*1986*	*1987*	*1988*
Exports, GNFS	39.8	52.9	67.7	78.5	83.6
of which: Merchandise	18.2	22.3	28.8	31.6	32.8
Imports, GNFS	69.7	86.6	112.1	120.4	121.6
of which: Merchandise	57.2	72.8	95.5	103.1	104.9
Net Factor Services	-1.5	-1.9	-1.8	-2.3	-2.8
Transfers a/	10.7	10.2	10.4	11.9	15.4
Current Account Balance	-20.7	-25.4	-35.8	-32.3	-25.4
Direct Foreign Investment	2.8	4.1	5.0	12.7	17.0
Public Capital (net)	29.6	28.5	31.2	18.7	11.4
Grants	24.4	27.7	25.2	7.5	5.2
Loan Disbursement (Net)	5.2	0.8	6.0	11.2	6.2
Commercial Banks (Net)	-3.2	1.1	0.1	1.1	-9.1
Other Capital b/	-0.3	-1.8	-1.0	-0.1	0.8
Change in Reserves (- = increase)	-8.2	-6.5	0.5	-0.1	5.3
EXTERNAL CAPITAL AND DEBT c/					
Gross Disbursement	31.2	31.9	32.7	..	..
Official Grants (public capital)	24.4	27.7	25.2	7.5	5.2
Loans	6.8	4.2	7.5	..	..
External Debt Outstanding & Disbursed b/	47.3	50.6	57.9	76.1	80.1
Debt Service					
Total Service Payments (scheduled)	5.6	8.9	7.9	11.5	8.5
Payments as % of Exports, G&NFS	13.6	16.5	11.4	14.4	10.0

a/ Private transfers only.
b/ Includes errors and ommissions.
c/ Debt includes IMF.

Pakistan

Pakistan has a population of about 106 million (as of mid-1988), with a per capita income of US$350, inhabitating an area about the size of Spain and Italy (800,000 square kilometers). Population density (134 per square kilometer) is higher than the 1985 average for the low-income economies (75 per square kilometer), and about 29 percent of the population lives in urban areas. Population growth averages about 3.1 percent per year. Educational enrollment at the primary level has remained more or less constant over the last two decades (53 percent of the age group in 1985), and remains well below the average enrollment observed in other low-income countries.

At the time of independence and partition from India in 1947, Pakistan began its national existence without some traditional markets for its primary products, with limited manufacturing capacity and short of skilled manpower, partly the result of a massive and violent exchange of populations with India during the partition process. Despite these obstacles, Pakistan achieved economic growth averaging over 5 percent per annum and saw its per capita income more than double (in constant rupee terms) between 1950 and 1985. However, this growth performance was uneven, with periods of rapid growth separated by years of economic stagnation. The 1950s and 1960s spanned a period of rapid economic growth characterized by emphasis on the private sector and import substitution in manufacturing. Growth was interrupted during the first half of the 1970s, during which widespread nationalization and large, long-gestation public investments in manufacturing demoralized the private sector without improving public sector performance. A brief period of trade liberalization/adjustment was ended abruptly in 1972 by the nationalization process.

In 1988, Pakistan experienced dramatic changes in political leadership. The death of President Zia in August and party-based parliamentary elections on November 16, plunged the country into a period of political transition resulting in the electoral victory of the Pakistan People's Party, the PPP, and the appointment of its leader, Benazir Bhutto, as Prime Minister in December 1988. The continuity in economic policy toward reducing fiscal and external current account imbalances, as well as trade liberalization and deregulation of industry through the political uncertainties and changes of government since August 1988, has been noteworthy.

On August 6, 1990, the President of Pakistan has, in exercise of his constitutional powers, dissolved the National Assembly, dismissed the government of ex-Prime Minister Benazir Bhutto, appointed the leader of Combined Opposition Party as the caretaker Prime Minister, and announced that the next general elections will be held on October 24, 1990.

Recent Economic Performance

Pakistan's overall economic performance in the 1980s was strong relative to many other developing countries. Real GDP growth averaged 6.3 percent per annum since 1980; performance in key sectors such as agriculture, manufacturing and energy, was satisfactory. Consistent with the government's policy of encouraging the private sector and increasing the role of markets in economic decisions, important progress has been made since the early 1980s in improving the policy framework, particularly in the areas of decontrolling prices, deregulating industrial activities, opening domestic and foreign trade in several major commodities to the private sector, and implementing a flexible exchange rate management policy. Also, the government has gradually dismantled subsidy programs for pesticides, seeds, nitrogenous fertilizers, and public mechanization services, and contained the expansion of public enterprises in favor of private initiative.

However, the generally satisfactory economic growth of recent years coincided with worsening macroeconomic balances. Fiscal performance deteriorated significantly through 1988, reflecting both the lack of a comprehensive revenue generating effort, continued rapid growth in recurrent expenditures and a debt service that has taken an increasing share of budgetary resources. The consolidated federal and provincial budget deficit increased from 5.3 percent of GDP in the early 1980s to

8.2 percent of GDP in fiscal 1986-87[1] and to 8.6 percent of GDP in fiscal 1988, and higher domestic bank and non-bank borrowing as well as external borrowing was used to compensate for deteriorating public savings. The ratio of domestic debt to GDP rose from about 28 percent in fiscal 1983 to over 40 percent at end-June 1988, while the ratio of total civilian external debt to GNP increased from 37 percent to about 42 percent.

In addition, the fiscal imbalance increased the pressure on the balance of payments and led to a widening of the current account deficit and to a marked drawdown of already low foreign exchange reserves. The current account deficit reached 4.3 percent of GNP in fiscal 1988, well above the 3.3 percent annual average experienced in the 1980s. Gross official foreign exchange reserves amounted to only about three weeks of imports, too low to meet unanticipated short-term fluctuations in foreign exchange needs.

Development Issues

By the end of fiscal 1988, the need to contain and reverse the growing fiscal deficit and sizable deficit in Pakistan's external trade account owing to the fiscal imbalance and a narrow export base were the most pressing reasons for macroeconomic adjustment and structural reforms. The trade regime has traditionally favored import substitution over export promotion. Despite progress toward trade liberalization, the trade regime continued to have a significant anti-export bias. The continued concentration of exports in rice and cotton, where price prospects are uncertain, and in cotton textiles, which are subject to protectionist pressures from industrialist countries, as well as declining workers' remittances (from US$2.9 billion in fiscal 1983 to below US$2 billion recently) leaves Pakistan's balance of payments fragile and vulnerable to external shocks.

Other structural weaknesses inhibiting Pakistan's prospects for sustained growth include policy-imposed price/cost distortions in industry, and low savings and investment rates, ranging between 12 percent and 16 percent of GNP, respectively. Some remaining direct and indirect price controls (such as petroleum products prices, administered utility prices, support prices for the major agricultural crops, water charges, non-nitrogenous fertilizers, and edible oils), subsidy programs, and regulatory policies continue to affect resource allocation sub-optimally. Private investment is still subject to formal and informal sanctioning, limited access to imported machinery, and to restrictions on firm location and closure.

Pakistan's high population growth rate and poor record in human resource and social development are serious constraints to the pace of development, improved income distribution and the pursuit of export-led industrialization. The past decade has seen an increase in average incomes and some success has been made in allocating more resources to social sectors during the Sixth Plan period. Nevertheless, Pakistan's literacy rate of 26 percent ranks among the lowest in the world, and few countries record a poorer literacy rate for rural females than Pakistan's 6 percent. Educational facilities are unevenly distributed and generally favor urban areas. Infant mortality and life expectancy indicators are similarly poor for a country of Pakistan's economic standing. Health coverage is limited, heavily focused on urban areas and hospital-based curative care.

Present physical infrastructure bottlenecks also constitute important constraints to economic growth, requiring large public investments in electric power upgrading, highways, and railway modernization. An aging irrigation system requires investments in water logging and salinity control, as well as replacement and repair of irrigation networks.

Pakistan is likely to face serious labor market difficulties in the future if the foundation for sustained economic growth and employment opportunities is not strengthened. Growth in the economically active population (ages 10-65) has consistently exceeded domestic employment growth over the decade of the 1980s. Between fiscal 1979 and 1987, the average annual growth rates were 3.0 percent and 2.4 percent, respectively. With Pakistan's high past population growth rate, labor force growth is expected to continue to exceed 3 percent per year for at least 20 more years, even if fertility rates fall further. And it is unlikely that the Middle East will absorb in the future the number of Pakistani workers that it did through the early 1980s.

In summary, Pakistan's future growth depends on redressing the macro imbalances in the economy and strengthening the domestic sources of growth—through better incentives for increasing productivity in industry and agriculture, provision of supporting infrastructure, development of the country's human resources, and domestic resource mobilization—thus providing a greater margin of security as external factors become less favorable.

Adjustment and Structural Reform, 1989-92

In recognition of the need for macroeconomic and structural adjustment to prevent a possible future economic crisis and to improve the development poten-

1. Fiscal year ends June 30 of specified year.

tial of the economy, the government in fiscal 1989 adopted a three-year adjustment program. This program began in July 1988 with the announcement of a significant package of fiscal, trade, and industrial and financial sector reforms with the fiscal 1989 budget and with subsequent fertilizer and public utility price adjustments.

This program was adopted in a year of significant political changes. However, there has been continuity of purpose across governments, with ex-Prime Minister Bhutto's government endorsing and implementing the adjustment program developed by its predecessor. Similarly, regardless of who comes to power following the October 1990 elections, major departures from the current economic program are not expected.

To date, the government's track record in program implementation is generally satisfactory. The policy reforms adopted in the first two years (fiscal 1989 and 1990 to date) have been in line with plans. Although the macro targets for the fiscal and external current account deficits were not fully attained in fiscal 1989, there were extenuating circumstances. As detailed below, Pakistan suffered a severe (8 percent) terms of trade deterioration, which also had repercussions on the budget.

The government's medium-term adjustment program for 1989-92, seeks to redress the growing macro imbalances of recent years and improve economic productivity. The program is designed to strengthen the fiscal situation through a comprehensive revenue generation and expenditure control/rationalization effort, renew the process of structural reforms in the areas of trade, industrial and agricultural policies that had been initiated in the early 1980s, and institute reforms in the financial sector.

Fiscal Policy. Measures include a significant resource mobilization effort aimed at increasing the tax revenue elasticity through a phased broadening of coverage of the sales tax, which is being replaced by a General Sales Tax (GST) in fiscal 1991; restructuring of the income tax system; the removal of most exemptions from the standard customs duties; and price increases for public utilities and other services.

Total government revenue to GDP is expected to increase, from about 18.5 percent in fiscal 1988. On the expenditure side, the government's measures are aimed at reducing the growth of current expenditures and lowering subsidies, while at the same time ensuring adequate growth in resources for public investment. With the full implementation of expenditure controls and rationalization measures, the ratio of government expenditures to GDP will be reduced, from 27.1 percent in fiscal 1988. Government investment in physical and social infrastructure will continue to grow in real terms during the program period, though the ratio of these expenditures to GDP will remain below the 7 percent observed in fiscal 1988. On the other hand, the continuous increase in the private sector's investment, encouraged by the improving macroeconomic situation and policy conditions, is expected to raise the total investment/GDP ratio, from 18 percent in fiscal 1988, while supplementing the government's investment in power generation and transportation subsectors.

Credit Policy and Domestic Liquidity. For containing and reducing inflationary pressure and secure targeted improvements in the balance of payments, the government intends to pursue cautious domestic debt policies and manage the growth of domestic credit and money supply in line with the growth of nominal GDP at the target rate of inflation, while permitting adequate growth in credit to the private sector.

Debt Management. The reduction of the fiscal deficits and the concurrent decline in the borrowing needs will enable the government to rationalize the rate structure of its domestic debt instruments, such as the National Savings Schemes (NSS) and Treasury bills. Some steps have already been taken for auctioning T-bills and interest rates for certain NSS instruments were adjusted downward recently. These and subsequent measures are expected to help reduce the segmentation in the financial market, and improve the profitability of commercial banks by gradually relieving their burden as captive institutions for low cost borrowing by the government.

Financial Sector Policies. The government has initiated financial sector reforms, aimed at restructuring the government debt, interest rates, improving the financial health of the banking system, strengthening the State Bank of Pakistan (SBP) as a regulatory and supervisory agency, and the long-term development of capital markets.

Foreign Trade and Industrial Policies. In foreign trade policy, the primary focus of the government's medium-term reform program is on the replacement of nontariff barriers (NTBs) by tariffs, by reducing the number of banned commodity categories from about 400 to 80 by fiscal 1992 and reducing the maximum tariff, from 225 percent to 100 percent in fiscal 1991.

On the export side, the adjustment program continues to emphasize export promotion by replacing the previous uniform income tax rebate system with a graduated one that encourages higher valued exports, and by allowing the private sector a greater involvement in exporting rice and cotton.

The government intends to continue to manage the exchange rate flexibly, both to facilitate the ongoing import liberalization process and to foster export growth, especially the export of non-traditional items.

In recognition of the need for reducing the policy-imposed controls or impediments to domestic mobility of resources, further industrial deregulation is being effected under the adjustment program.

Economic Performance under Adjustment

In FY89, the first year of the adjustment program, structural reforms were broadly implemented as planned and economic growth exceeded the target (5.6 percent versus 5.2 percent) despite the political challenges to the government, extensive floods, and widespread civil disturbances. Tight credit policy and fiscal restraint were instrumental in containing inflation below 10 percent. The liberalization of the trade regime, tariff rationalization and industrial incentives contributed to a rise in private investment and an increase in export volume. However, program objectives in the fiscal area, in domestic pricing and in the balance of payments were not fully achieved.

Fiscal Conditions.

Revenue targets were met owing mainly to the broadening of the sales tax and increases in utility prices. The fiscal deficit was reduced substantially from 8.6 percent of GDP in fiscal 1988 to 7.3 percent in fiscal 1989, although it exceeded the target of 6.7 percent. This was mainly due to increases in current expenditures above program levels, as unprogrammed and substantial amounts of wheat imports led to higher than planned subsidies. Increases in the international prices of edible oils also resulted in larger than previously anticipated subsidies.

Current Account Balance.

The projected narrowing of the external current account deficit from 4.3 percent of GNP in 1987/88 to 3.4 percent in 1988/89 and the planned increase in gross international reserves did not materialize. Gross international reserves remained at a low three-weeks of import level. Higher debt service payments, lower workers' remittances, higher capital goods imports, and a sharp terms of trade deterioration caused an increase in the external current account deficit to 4.7 percent of GNP. The larger current account deficit was financed by larger than expected disbursements from existing loan commitments. The government responded to the worsening of the external balances by accelerating the pace of exchange rate adjustments in the second half of fiscal 1989.

Structural Measures. In the fiscal area measures were taken to broaden the coverage of the sales tax and to improve the revenue elasticity of the tax system. Specifically, some of the exemptions from the domestic sales tax were removed, thereby increasing the coverage of the manufacturing value-added from about 17 percent to 22 percent in the formal sector, and, concurrently, 171 additional categories of imports were made subject to the standard sales tax of 12.5 percent. In the income tax area, changes included the imposition of a 10 percent surcharge on the regular tax liability of those tax payers whose income exceeds Rs 200,000, and the addition of agricultural income to total income of nonsalaried tax payers for the purpose of determining marginal tax rates for the latter group. A panel audit system was introduced to strengthen the audit of corporate income tax payers.

While credit policy was tighter than programmed, direct credit controls imposed on individual banks were reinforced and the rates of return on concessional credit to farmers and for locally manufactured machinery were increased to more economically justified levels. Furthermore, new prudential regulations governing the banking system (loan classification, provisioning, accrual policy and capital adequacy) were established, and portfolio audits of the nationalized banks were undertaken to enhance prudential supervision.

With regard to trade policy, the government initiated a comprehensive medium-term program that aims at further liberalization of the trade regime. At the beginning of fiscal 1989, a large number of items were removed from the lists of restricted and banned imports, the value ceilings on imports of machinery against cash licenses were increased, the tariff structure was rationalized and the maximum ad valorem import tariff rates were lowered to 125 percent.

In fiscal 1990, the government continued undertaking policy reform measures. In the area of taxation, exemptions from the domestic sales tax were removed for about 40 items, thus increasing the coverage of sales tax to 32 percent of manufacturing value-added. Important changes in the trade policy included the removal of 70 commodity categories from the Negative (i.e., banned) Import List and about 20 from the Restricted List, and the conversion of a large number of specific tariffs to ad valorem rates. In the industrial policy, changes led to a further expansion of the investment sanctioning limit and of the value limits imposed on imports of machinery and millwork against cash licenses.

Data for the first nine months of fiscal 1990 show that the macroeconomic situation has generally improved. The overall economic growth target of 5.3 percent will probably be achieved, industrial output has recovered, private investments appear strong and a good wheat crop is expected. Inflation has been reduced to below 6 percent. Exports are expected to be on target; however, because of higher than programmed petroleum and defense related imports associated with the Kashmir conflict, the external account deficit is expected to be slightly larger than the target of 3.9 percent of GNP. Gross official reserves are now equivalent to about five weeks of imports. On the fiscal side, developments to date indicate that revenues are on track, but current expenditure overruns, associated in large part to the Kashmir conflict, appear to have occurred. However, the government's recent corrective measures, including the upward adjustments in petroleum and fertilizer prices, is likely to limit the size of the budget deficit overrun (relative to the target rate of 6.3 percent of GDP) to less than 0.5 percent of GDP. Looking to fiscal 1991, during the recent meeting of the Consortium in Paris, the government reiterated its firm commitment to the reform program and stressed that the new policy measures planned for fiscal 1991 would be sufficient to achieve the next year's macroeconomic targets.

External Capital Requirements

It is feasible for a sustainable level of the external current account deficit, one that can be financed without recourse to exceptional financing, to be reached by 1992. This presumes that Pakistan continues to receive substantial amounts of foreign assistance on relatively concessional terms, during the remainder of the program period, from multilateral and bilateral creditors. After the adjustment period, Pakistan should be in a position to gradually increase its reliance on private financial markets. Pakistan's external financing needs may of course differ, if the future actual world prices for the key exports (such as cotton, rice, and cotton yarn) and/or imports (such as edible oils, fertilizers, crude oil) deviate significantly from those forecast by the Bank. It should also be noted that projections assume negligible wheat imports beyond fiscal 1991. As such, any sizeable wheat import that might be necessitated by adverse weather conditions would expand Pakistan's external financing needs.

PAKISTAN

Mid-1988 Population (mils.)	106
1988 Per Capita GNP in US$:	350

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.5	5.4	6.5	7.5	5.6
Net Indirect Taxes	7.4	9.1	10.2	10.0	10.7	11.4	..	..	..	..	..
Agriculture	37.2	32.8	26.5	23.6	23.5	23.5	4.7	2.8	4.3	2.7	6.1
Industry	18.6	19.9	22.4	21.6	21.7	21.2	6.6	7.0	7.2	8.7	3.9
(of which Manufacturing)	13.4	14.5	14.3	15.0	15.0	14.6	6.2	6.3	8.1	10.0	3.1
Services	36.8	38.2	40.9	44.8	44.0	43.9	5.1	6.4	7.4	7.4	5.1
Resource Balance	-8.3	-2.8	-11.6	-5.3	-7.5	-7.2	..	..	..	..	..
Exports of GNFS	8.5	13.4	12.5	13.8	14.4	14.3	4.5	4.2	8.9	-1.6	11.5
Imports of GNFS	16.8	16.2	24.1	19.1	21.9	21.5	-1.3	9.1	3.0	8.1	2.9
Total Expenditures	108.3	102.8	111.6	105.3	107.5	107.2	3.7	6.3	5.5	8.8	4.5
Total Consumption	86.9	89.9	93.1	86.1	89.4	89.7	4.5	6.5	5.3	10.8	4.7
Private Consumption	76.1	78.3	83.1	72.6	75.5	74.6	4.2	6.8	4.4	10.7	2.9
General Government	10.8	11.6	10.0	13.5	13.9	15.1	6.2	4.0	11.0	11.2	14.5
Gross Domestic Investment	21.5	12.9	18.5	19.1	18.1	17.6	0.4	5.8	6.4	-0.4	3.1
Fixed Investment	21.3	11.4	17.6	17.5	16.6	16.0	-1.6	6.7	6.1	-0.4	2.5
Changes in Stocks	0.1	1.5	0.9	1.7	1.6	1.6	..	..	..	..	..
Gross Domestic Saving	13.1	10.1	6.9	13.9	10.6	10.3	..	-11.6	16.0	-13.4	4.1
Net Factor Income	-0.4	-1.3	-1.2	-2.1	-2.2	-2.2	..	..	..	..	..
Net Current Transfers	0.0	2.2	8.0	7.8	6.1	5.6	..	..	..	..	..
Gross National Saving	12.7	11.0	13.7	19.6	14.5	13.7	4.6	4.0	9.5	-17.1	1.2

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	165	252	368	572	615	650	5.5	5.4	6.5	7.5	5.6
Capacity to Import	38	48	56	79	78	81	1.5	2.7	6.4	-1.7	3.8
Terms of Trade Adjustment	17	18	16	0	0	-6	..	..	..	..	..
Gross Domestic Income	182	270	384	572	615	644	4.8	5.1	6.1	7.4	4.7
Gross National Product	165	249	363	561	602	636	5.5	5.4	6.3	7.4	5.6
Gross National Income	181	266	379	561	602	629	4.8	5.1	6.0	7.4	4.6

			(1987 = 100)				*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	65.4	92.3	95.5	100.0	108.8	117.4	5.5	11.5	6.0	8.8	7.8
Wholesale Prices (IFS 63)	63.0	88.0	92.4	100.0	109.7	119.0	5.8	11.7	6.7	9.7	8.5
Implicit GDP Deflator	63.8	92.6	95.6	100.0	109.1	119.1	4.9	12.5	6.5	9.1	9.2
Implicit Expenditures Defl.	60.1	93.3	96.5	100.0	110.0	121.2	6.4	12.5	7.0	10.0	10.2

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.0	3.1	3.1
Labor Force	2.1	3.1	2.2
Gross Natl. Income p.c.	1.7	1.9	2.8
Private Consumption p.c.	1.2	3.6	1.3
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	-0.2	1.7	0.5
Marginal Savings Rates:			
Gross National Saving	6.0	20.0	16.8
Gross Domestic Saving	1.0	-0.6	17.5
ICOR (period averages):	..	3.5	2.9

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	59.8	55.4	50.7	49.5
Industry	18.3	16.9	19.3	19.2
Services	21.9	27.7	29.9	31.3
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index						Value at Current Prices (millions US$)					
	1980	1985	1986	1987	1988	1989	1980	1985	1986	1987	1988	1989
Cotton	..	..	127.2	127.5	100.0	167.4	335	279	513	446	610	929
Rice (Basmati)	..	..	117.6	85.1	100.0	103.2	226	110	173	134	160	156
Rice (other)	..	..	106.8	106.4	100.0	63.3	196	112	169	161	203	148
Cotton manufactures	..	..	..	..	100.0	113.1	450	920	1,096	1,585	1,858	1,950
Other traditional exp.	..	..	..	..	100.0	88.4	350	411	478	706	860	700
Other exports	..	..	..	..	100.0	106.6	808	659	641	649	763	754
Total Exports FOB	..	..	81.8	92.9	100.0	113.1	2,365	2,457	3,070	3,681	4,362	4,594
F. Merchandise Imports												
Edible oil & wheat	..	..	78.1	74.2	100.0	175.0	230	535	537	224	410	839
Fertilizers	..	..	61.6	104.4	100.0	85.0	274	134	119	192	180	189
Other Consumer Goods	..	..	85.5	92.3	100.0	106.9	1,080	1,379	1,076	813	982	961
Other Intermed. Goods	..	..	101.0	90.4	100.0	99.9	..	1,477	1,536	1,608	1,835	1,835
Other public sector int. imp	..	..	92.1	93.0	100.0	85.5	..	527	538	574	692	609
Private sector			96.2	91.9	100.0	96.5	..	2,479	2,721	2,882	3,422	3,418
Total merch. imports CIF					100.0	101.7	5391.0	6531.0	6527.0	6293.0	7521.0	7851.0

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	89.7	98.5	100.0	93.1
Merch. Imports Price Index	..	..	74.1	89.9	100.0	102.7
Merch. Terms of Trade	..	..	121.1	109.6	100.0	90.7

H. Balance of Payments	US$ millions (at current prices)					
	1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	2,958	3,247	3,796	4,414	5,242	5,501
Merchandise (FOB)	2,341	2,460	2,945	3,492	4,374	4,593
Non-Factor Services	617	786	851	922	868	908
Imports of Goods & NFS	5,709	7,113	7,230	7,005	8,359	8,682
Merchandise (FOB)	4,857	6,016	6,002	5,798	6,936	7,221
Non-Factor Services	853	1,097	1,228	1,208	1,423	1,461
Resource Balance	-2,751	-3,867	-3,435	-2,592	-3,117	-3,181
Net Factor Income	-281	-506	-641	-695	-830	-906
(interest per DRS)	249	310	354	394	436	431
Net Current Transfers	1,895	2,688	2,824	2,560	2,262	2,129
(workers' remittances)	1,748	2,456	2,597	2,280	2,018	1,897
Curr. A/C Bal. before Off. Transf.	-1,137	-1,685	-1,251	-727	-1,685	-1,958
Net Official Transfers	268	403	477	394	521	568
Curr. A/C Bal. after Off. Transf.	-868	-1,282	-773	-334	-1,164	-1,390
Long-Term Capital Inflow	823	460	769	439	789	1,180
Direct Investment	68	78	150	108	145	177
Net LT Loans (DRS data)	708	279	489	534	822	1,164
Other LT Inflow (Net)	48	103	130	-203	-178	-161
Total Other Items (net)	55	-225	433	187	285	60
Net Short Term Capital	-247	-166	446	182	264	41
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	303	-59	-13	6	21	19
Changes in Net Reserves	-10	1,048	-428	-293	90	150
Net Credit from the IMF	-81	-85	-250	-361	-321	148
Other Reserves Changes	71	1,132	-178	68	412	2
As Share of GDP:						
Resource Balance	-11.6	-12.4	-10.8	-7.8	-8.2	-7.9
Interest Payments	1.0	1.0	1.1	1.2	1.1	1.1
Current Account Balance	-4.8	-5.4	-3.9	-2.2	-4.4	-4.8
Memorandum Items:						
Reserves excl. Gold (mil. US$)	496	807	709	502	395	521
Reserves incl. Gold (mil. US$)	1,568	1,429	1,465	1,441	1,193	1,302
Official X-Rate (LCUs/US$)	9.90	15.93	16.65	17.40	18.00	20.54
Index Real Eff. X-R Base 1980	100.00	95.24	78.62	69.56	66.50	63.00
GDP (millions of current US$)	23,690	31,145	31,899	33,352	38,217	40,404

I. Budget (Cons. Federal Gov.)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-86	1987	1988	1989
Current Receipts	17.0	17.0	18.0	18.5	18.5	18.9	15.1	13.9	17.5	17.7
Current Expenditures	14.0	17.8	19.0	18.9	19.8	19.9	19.9	10.8	22.4	16.1
Current Budget Balance	3.0	-0.8	-0.9	-0.5	-1.3	-1.0	--	-46.6	222.1	-7.5
Capital Expenditures	9.3	6.6	7.1	7.7	7.3	6.3	9.1	20.2	11.6	-1.6
Overall Deficit	-6.3	-7.4	-8.1	-8.2	-8.6	-7.3	19.0	12.3	23.3	-2.5
Official Capital Grants										
External Borrowing (net)	3.0	1.1	1.7	1.5	2.2	2.4	3.6	-1.9	74.5	24.5
Domestic Non-Bank Financing	0.6	2.7	5.2	4.8	4.4	4.5	63.5	1.8	6.7	19.2
Domestic Bank Financing	2.7	3.9	1.2	1.9	2.0	0.4	-0.6	79.0	25.5	-76.6

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J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989e	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989e
Public & Publicly Guar. LT	705	280	485	508	794	1,000	8,512	10,571	11,800	13,434	13,943	14,364
Official Creditors	540	468	447	394	969	1,100	7,971	9,784	10,954	12,435	13,134	13,548
Multilateral	118	315	280	468	688	687	1,530	2,921	3,359	4,084	4,678	4,939
of which IBRD	-10	29	75	150	276	311	330	435	605	908	1,108	1,251
of which IDA	70	104	128	133	99	84	821	1,391	1,560	1,779	1,842	1,870
Bilateral	422	153	166	-74	280	413	6,441	6,864	7,595	8,351	8,456	8,609
Private Creditors	165	-188	38	114	-175	-99	541	787	846	999	810	816
Suppliers	7	-10	2	-20	-20	36	200	182	190	179	156	201
Financial Markets	..	..	..	..	..	-102	..	..	..	..	..	476
Private Non-guaranteed	2	-1	4	26	29	0	18	26	30	56	84	69
Total LT	708	279	489	534	822	1,000	8,530	10,597	11,829	13,490	14,027	14,433
IMF Credit	169	-185	-368	-429	-312	148	674	1,455	1,194	922	557	722
Net Short-Term Capital	-247	-166	446	182	264	41	737	1,310	1,863	2,280	2,425	2,535
Total incl. IMF & Net ST	629	-72	567	287	775	1,189	9,941	13,362	14,886	16,692	17,010	17,690

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989e
Share of Total Long-Term DOD						
1. IBRD as % of Total	3.86	4.10	5.12	6.73	7.90	8.70
2. IDA as % of Total	9.62	13.12	13.19	13.19	13.13	13.00
3. IBRD+IDA as % of Total	13.49	17.22	18.30	19.92	21.02	21.60
Share of LT Debt Service						
1. IBRD as % of Total	9.70	5.79	8.36	10.84	11.73	9.60
2. IDA as % of Total	1.56	2.01	2.46	2.53	2.39	2.30
3. IBRD+IDA as % of Total	11.26	7.80	10.82	13.38	14.12	11.80
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	179.26	180.89	181.87	198.79	190.46	192.50
2. IMF Credit/Exports	14.17	24.84	18.36	13.59	7.57	9.60
3. Short-Term Debt/Exports	15.49	22.36	28.64	33.60	32.93	33.80
4. LT+IMF+ST DOD/Exports	208.92	228.09	228.87	245.97	230.95	235.90
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	36.01	34.02	37.08	40.45	36.70	35.80
2. IMF Credit/GDP	2.85	4.67	3.74	2.76	1.46	1.80
3. Short-Term Debt/GDP	3.11	4.21	5.84	6.84	6.35	6.30
4. LT+IMF+ST DOD/GDP	41.96	42.90	46.67	50.05	44.51	43.80
Debt Service /Exports						
1. Public & Guaranteed LT	12.48	17.55	15.86	16.68	17.08	20.30
2. Private Non-guaranteed LT	0.17	0.28	0.27	0.29	0.44	0.30
3. Total Long-Term Debt Service	12.65	17.83	16.13	16.97	17.52	20.50
4. IMF Repurchases+Serv. Chgs.	3.49	5.13	7.19	7.39	4.59	3.80
5. Interest only on ST Debt	1.83	1.23	1.98	2.17	2.58	2.70
6. Total (LT+IMF+ST Int.)	17.97	24.19	25.30	26.53	24.69	27.10

Notes:

e = 1989 debt figures are on fiscal year bases and are our most recent estimates.

Panama

The government headed by General Omar Torrijos from 1968 to 1981 carried out major social reforms, with distributional objectives pursued through agrarian reform, a new Labor Code (1972), and investments in education, health, and rural transport. Growth was stimulated by ambitious public investments mainly financed from abroad, which led to a rapidly increasing external debt. During the 1970s the quality of life improved for most Panamanians. GDP growth averaged 4.5 percent. Infant mortality fell from 59 per thousand in 1965 to 21 per thousand in 1981; the number of doctors per inhabitant increased more than 60 percent in the 1970s; and secondary school enrollment rose from 39 percent of the eligible population in 1970 to 63 percent in 1981. The level of absolute poverty declined modestly during the decade and income distribution improved. In 1985, private services such as banking, travel and international commerce accounted for nearly 60 percent of Panama's GDP and per capita income was US$2,080, more than twice the average in neighboring Central American countries.

The early 1980s saw the beginning of a more difficult period for Panama. Politically, the process of returning the government to civilian hands began smoothly, with the passage of a new constitution in 1983 and the inauguration of an elected President in 1984. From 1985 onward, however, friction between the Defense Forces and the civil authorities intensified. Beginning in February 1988, these conflicts also led Panama into severe external relations problems and economic sanctions by the U.S.

Panama's economy suffered from the slowdown in world trade in 1982 and the government tried to offset its recessionary effects through expansionary public expenditures. From 1983 onward, the sharply reduced availability of commercial funds made this strategy untenable, and GDP stagnated, unemployment increased sharply, and Panama had to cut public investment and refinance its external amortization obligations. Since the Balboa is fixed to the U.S. dollar, there were few other signs of disequilibrium in the economy—inflation declined with international trends, public sector finances came into balance for lack of deficit finance, and the trade deficit narrowed. In 1983 the government adopted a program of measures to liberalize trade and reduce the scope of the public sector, with international support. In 1985, the economy began to show renewed growth; a recovery which lasted into 1987. Panama continued to pay interest, but rescheduled amortization in 1985-86, and rolled it over during 1987. Overall, Panama suffered less from the recession than did most of Latin America, with real per capita incomes being almost back to their 1982 peak by 1987.

However, since mid-1987 the reform process has faltered. As a result of political instability, domestic banks lost deposits during the year and severely restricted lending, with contractionary effects on the economy. Public finances also came under serious strain. The government adjusted by cutting public investment and incurring external debt servicing arrears for the first time in recent history. The public sector deficit increased in 1987, but only to about 1 percent of GDP. Inflation remained low, about 1 percent, reflecting world trends.

During 1988 the economic situation deteriorated sharply, as non-resident deposits in the international banking center were withdrawn on a massive scale, income and employment declined and the government experienced a sharp reduction in revenues. Real GDP contracted by 16 percent. The banking system closed for two months beginning in early March, causing severe liquidity problems in the economy. The assets of the banking system declined by over half between mid-1987 and mid-1988, with the consequence that investment declined sharply. While overall imports fell by about one-third, export activities remained relatively stable, and the current account of the balance of payments registered a surplus of $300 million. However, the strong deterioration of the capital account (including highly negative errors and omissions), reflecting capital flight, led to an overall balance of payments deficit of $1.7 billion. This was mostly financed through external arrears. Government finances were affected adversely by the freezing of some external sources of revenue (Canal and pipeline royalties, taxes of U.S. companies), the decline in economic activity, the complete lack of domestic borrowing possibilities and domestic tax evasion. Central government revenues declined by 44 percent from 1987 to 1988, while current expenditures remained largely unchanged. Despite a cut of over 50 percent in capital expenditures, the overall nonfinancial public sector deficit jumped from less than 1 percent in 1987 to over 10 percent in 1988, and was financed through arrears with external and domestic creditors.

Recent Economic Developments

During 1989, the sharp economic decline of the previous year was arrested, but growth prospects remained small; real GDP fell by about 2 percent, and per capita GNP for that year is estimated to be $1,780. On December 20, 1989, U.S. military forces intervened in Panama and a new government headed by Guillermo Endara assumed office. The new government inherited a very difficult economic and political situation. The damages caused by the military intervention and widespread looting added an extra burden on Panama's economy, which was already weakened by several years of macroeconomic mismanagement, a rapidly decaying infrastructure due to minimal public and private investment, and a huge external debt. During the first quarter of 1990, urban unemployment was estimated at 30 percent and the banking system still was operating under severe deposit withdrawal restrictions.

Despite this difficult situation, the country's economic prospects have improved with the lifting of U.S. economic sanctions, the unblocking of about $400 million in escrow funds belonging to the Panamanian government, and the likely approval of a substantial U.S. aid package for Panama. Also, the new authorities have announced a new economic program emphasizing tighter fiscal discipline, the withdrawal of banking restrictions, privatization or dissolution of inviable state enterprises and normalization of relations with external creditors. As a first step in this normalization, the clearance of critical arrears was announced as a matter of high priority.

At the end of 1989, Panama's medium- and long-term external public debt was around $3.5 billion, or 78 percent of GDP. Since the Panamanian government was neither servicing its external debt nor able to attract significant new loans, for the last two years, total debt is only slightly higher than it was in 1987. After the new government came to power, it announced a plan for clearing arrears of multilateral institutions. This plan involves the creation of a Support Group and relies on donor contributions from the U.S. and other countries, as well as on Panama's own resources. While Panama's total external debt has remained more or less constant over the last two years, GDP has declined by over 16 percent over that period. This has the consequence that the debt service to GDP ratio, which had already risen above 10 percent in 1986, would be higher still, should full servicing take place. A solution to Panama's debt problem, therefore, also will require the implementation of a comprehensive adjustment program designed to quickly reactivate economic growth.

PANAMA

Mid-1987 Population (mils.)	2.3
1987 Per Capita GNP in US$:	2,240

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)/1				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-86*	*1987*	*1988*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	7.5	4.6	2.6	2.3	-16.0
Net Indirect Taxes	7.4	8.0	7.5	..	..	..	..	..	..	..	..
Agriculture	17.8	12.8	9.0	..	..	..	3.4	2.8	2.2	7.4	-7.5
Industry	19.2	22.0	20.7	..	..	..	9.3	3.3	-1.4	1.4	-36.1
(of which Manufacturing)	11.7	11.1	10.0	..	..	..	8.0	2.5	0.2	3.7	-23.4
Services	63.1	65.2	70.3	..	..	..	7.8	5.2	3.7	2.2	-13.0
Resource Balance	-2.0	-3.9	-3.3	4.5	13.5	..	..	..	..	..	..
Exports of GNFS	36.4	36.5	44.0	33.9	36.8	..	5.9	6.5	0.9	..	..
Imports of GNFS	38.4	40.4	47.4	29.4	23.3	..	8.5	2.8	-0.6	9.2	..
Total Expenditures	102.0	103.9	103.3	95.5	86.5	..	8.5	3.1	1.9	3.6	..
Total Consumption	84.5	70.4	75.6	78.0	79.1	..	5.9	5.1	4.1	3.4	..
Private Consumption	73.5	53.1	56.5	..	..	..	4.8	5.2	4.3	..	..
General Government	11.0	17.3	19.1	..	..	..	9.7	4.7	3.5	..	..
Gross Domestic Investment	17.5	33.6	27.7	17.5	7.4	..	15.4	-1.7	-5.2	4.4	..
Fixed Investment	15.2	30.1	24.3	..	..	..	15.7	-1.9	-3.0	..	..
Changes in Stocks	2.4	3.5	3.4	..	..	..	..	..	..	..	..
Gross Domestic Saving	15.5	29.6	24.4	22.0	20.9	..	14.3	-2.0	-0.1	..	..
Net Factor Income	-2.4	-2.9	-6.4	-6.6	..	..	..	..	..	..	..
Net Current Transfers	0.0	-1.6	-1.5	-0.9	..	..	..	..	..	..	..
Gross National Saving	13.2	25.2	16.6	17.2	14.1	..	14.3	-4.5	-1.6	..	..

In millions of LCUs (at constant 1980 prices)/1	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	1,425	2,505	3,559	4,337	..	..	7.5	4.6	2.6	2.3	-16.0
Capacity to Import	654	1,128	1,567	..	..	..	7.3	3.2	2.4	..	..
Terms of Trade Adjustment	106	248	0	..	..	..	..	..	..	..	..
Gross Domestic Income	1,531	2,754	3,559	..	..	..	8.0	3.3	3.2	..	..
Gross National Product	1,392	2,439	3,332	4,007	3,967	..	7.5	4.2	2.3	4.0	-1.0
Gross National Income	1,498	2,687	3,332	..	..	..	8.0	2.9	3.0	..	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	84.5	99.1	99.0	100.0	100.3	100.2	2.6	6.7	1.8	0.3	0.0
Wholesale Prices (IFS 63)	101.7	117.3	98.6	100.0	93.2	..	4.2	11.3	-1.8	-6.8	..
Implicit GDP Deflator	78.9	94.5	95.9	100.0	..	..	2.4	7.6	3.3	..	..
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-86*
Population	2.9	2.4	2.2
Labor Force	..	..	..
Gross Natl. Income p.c.	5.0	0.6	0.8
Private Consumption p.c.	1.9	2.8	2.1
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.1	0.6	-0.3
Marginal Savings Rates:			
Gross National Saving	42.7	-4.9	..
Gross Domestic Saving	48.4	11.8	1.0
ICOR (period averages):	..	6.0	9.0

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1985*
Agriculture	46.2	38.5	31.7	29.4
Industry	15.8	17.7	18.1	16.0
Services	38.0	43.8	50.1	54.6
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FUEL	..	105.9	76.5	100.0	94.2	..	233	107	55	76	59	..
X.FOOD.SUGAR	..	160.6	116.7	100.0	55.9	..	66	27	20	17	6	..
X.FOOD.BANANA	..	101.0	86.1	100.0	85.8	..	61	78	70	86	77	..
X.FOOD.FISH	..	112.0	124.8	100.0	88.0	..	44	60	68	66	52	..
Manufactures	..	70.0	91.1	100.0	119.4	..	10	11	14	16	19	..
Residual	..	87.7	112.3	100.0	118.5	..	112	112	187	182	151	..
Total Exports FOB	..	100.1	99.9	100.0	100.1	..	526	395	414	443	364	..
F. Merchandise Imports												
Food	..	115.4	104.3	100.0	55.3	..	123	136	131	129	91	..
Fuel and energy	..	138.3	135.8	100.0	49.7	..	424	292	175	196	134	..
Other Consumer Goods	..	93.4	108.7	100.0	63.8	..	373	465	472	526	293	..
Other Intermed. Goods	..	78.2	114.5	100.0	70.3	..	163	179	192	197	141	..
Capital goods	..	138.3	135.8	100.0	49.7	..	259	319	315	258	136	..
Total Imports CIF	..	103.7	103.7	100.0	60.1	..	1,340	1,390	1,290	1,310	795	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	88.7	93.2	100.0	81.8	..
Merch. Imports Price Index	..	102.2	94.4	100.0	101.4	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	3,373	3,301	3,665	3,737	3,520	..
Merchandise (FOB)	2,267	1,975	2,360	2,492	2,352	..
Non-Factor Services	1,106	1,326	1,306	1,245	1,169	..
Imports of Goods & NFS	3,634	3,159	3,366	3,489	2,870	..
Merchandise (FOB)	2,994	2,731	2,899	3,058	2,525	..
Non-Factor Services	640	428	467	431	345	..
Resource Balance	-261	141	299	248	650	..
Net Factor Income	-64	36	-40	-106	18	..
(interest per DRS)	252	303	322	225	4	0
Net Current Transfers	-52	-31	-27	-49	-26	..
(workers' remittances)	0	0	0	0	0	0
Curr. A/C Bal. before Off. Transf.	-378	147	232	92	641	..
Net Official Transfers	67	140	122	114	112	..
Curr. A/C Bal. after Off. Transf.	-311	286	354	206	753	..
Long-Term Capital Inflow	-720	-253	-141	9	-397	..
Direct Investment	-47	59	-62	58	-36	..
Net LT Loans (DRS data)	189	60	64	-17	1	0
Other LT Inflow (Net)	-863	-372	-142	-31	-362	..
Total Other Items (net)	1,043	-152	-154	-253	-361	..
Net Short Term Capital	380	101	219	270	857	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	663	-253	-373	-523	-1,219	..
Changes in Net Reserves	-11	118	-60	38	5	..
Net Credit from the IMF	-18	40	42	-7	-18	..
Other Reserves Changes	7	78	-101	45	23	..
As Share of GDP:						
Resource Balance	-7.3	2.9	5.8	4.5	..	..
Interest Payments	7.1	6.2	6.3	4.1	..	..
Current Account Balance	-10.6	3.0	4.5	1.7	..	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	117	98	170	78	72	119
Reserves incl. Gold (mil. US$)	117	98	170	78	72	119
Official X-Rate (LCUs/US$)	1.00	1.00	1.00	1.00	1.00	1.00
Index Real Eff. X-R Base 1980	100.00	107.67	98.71	92.10	85.39	81.86
GDP (millions of current US$)	3,559	4,901	5,121	5,491	..	..

I. Budget (specify level)	*Share of GDP (%)* 1980	*1985*	*1986*	*1987*	*1988*	*1989*	*Growth Rates* 1980-84	*1986*	*1987*	*1988*	*1989*
Current Receipts	37.2	31.7	30.9	31.1	23.3	..	11.1	5.3	2.8	-35.2	..
Current Expenditures	34.0	28.6	26.6	28.1	32.0	..	11.4	2.4	7.9	-1.5	..
Current Budget Balance	3.2	3.1	4.3	3.0	-8.7	..	7.2	32.9	-28.8	..	..
Capital Receipts	0.1	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	8.7	5.1	4.7	3.8	1.8	..	9.4	9.3	-17.4	-59.0	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-5.4	-1.9	-0.4	-0.8	-10.5	..	10.9	-27.5	..	..	..
Official Capital Grants	1.9	2.9	0.1	..	..	..	55.2	..	..	..	..
External Borrowing (net)	6.4	..	..	..	..	..	-14.3	..	..	..	..
Domestic Non-Bank Financing	-0.2	..	..	..	..	..	-6.5	..	..	..	..
Domestic Bank Financing	-1.1	..	..	..	..	..	-6.1	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	*1985*	*1986*	*1987*	*1988*	*1989*	*Debt Outstanding & Disbursed (US$ millions)* 1980	*1985*	*1986*	*1987*	*1988*	*1989*
Public & Publicly Guar. LT	189	60	64	-17	1	0	2,271	3,324	3,570	3,700	3,625	3,544
Official Creditors	76	54	57	-53	1	0	605	1,181	1,321	1,454	1,387	1,362
Multilateral	59	57	78	-23	1	0	327	760	950	1,071	1,005	990
of which IBRD	15	6	52	-19	1	0	133	310	438	523	478	465
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	17	-3	-22	-31	1	0	278	422	371	383	382	373
Private Creditors	113	6	7	36	0	0	1,666	2,143	2,249	2,246	2,237	2,181
Suppliers	-4	-7	-1	0	0	0	36	42	41	42	42	41
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	189	60	64	-17	1	0	2,271	3,324	3,570	3,700	3,625	3,544
IMF Credit	-17	7	6	-59	0	-1	23	311	353	346	328	320
Net Short-Term Capital	380	101	219	270	857	..	680	1,124	1,010	1,256	1,667	2,138
Total incl. IMF & Net ST	552	168	289	194	859	..	2,974	4,759	4,933	5,302	5,620	6,001

Bank and IDA Ratios	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Share of Total Long-Term DOD						
1. IBRD as % of Total	5.84	9.34	12.28	14.13	13.19	13.13
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	5.84	9.34	12.28	14.13	13.19	13.13
Share of LT Debt Service						
1. IBRD as % of Total	3.67	10.50	13.51	18.05	59.21	0.00
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	3.67	10.50	13.51	18.05	59.21	0.00
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	29.35	52.69	58.34	64.62	82.23	..
2. IMF Credit/Exports	0.30	4.93	5.77	6.04	7.44	..
3. Short-Term Debt/Exports	8.79	17.82	16.51	21.93	37.82	..
4. LT+IMF+ST DOD/Exports	38.44	75.44	80.62	92.60	127.50	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	63.81	67.82	69.70	67.38	..	..
2. IMF Credit/GDP	0.65	6.35	6.89	6.30	..	..
3. Short-Term Debt/GDP	19.11	22.93	19.72	22.87	..	..
4. LT+IMF+ST DOD/GDP	83.57	97.10	96.32	96.55	..	..
Debt Service /Exports						
1. Public & Guaranteed LT	6.03	6.50	7.69	6.67	0.17	..
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	..
3. Total Long-Term Debt Service	6.03	6.50	7.69	6.67	0.17	..
4. IMF Repurchases+Serv. Chgs.	0.26	0.83	1.17	1.71	0.01	..
5. Interest only on ST Debt	0.02	0.16	0.05	0.15		..
6. Total (LT+IMF+ST Int.)	6.31	7.49	10.75	8.53	0.18	..

Notes:

/1 Data and growth rates refer to 1980 base year; 1987 and 1988 data are based on IMF staff estimates.

e = estimated data
p = preliminary data

Papua New Guinea

By far the largest of the Pacific island countries, with a land area of 462,000 km2 and a population of about 3.8 million, PNG is richly endowed with natural resources. Gold and copper deposits are sizable, and some promising discoveries of oil and gas have recently been made. Fertile soils and a favorable climate allow a wide range of crops to be grown. A large land area under forests and an extensive fishing zone also provide substantial scope for forestry and fishery development. Only a small proportion of these resources has so far been tapped.

The richness of natural resource endowments, however, is matched by the challenging nature of the environment for development. Close to 85 percent of the population are still mainly engaged in subsistence agriculture. A complex system of land ownership and administration hampers the mobilization of land for development. Adult literacy is low. Social and administrative fragmentation resulting from extraordinary cultural and ethnic diversity—over 700 languages or dialects — and the organization of the country into 19 self-governing provinces render the task of economic planning and development especially demanding. There is a severe lack of unifying infrastructure, and the problem is compounded by the rugged, mountainous terrain and the wide geographic dispersion of the population, making access difficult and restricting the growth of domestic markets. Moreover, public administration and the capacity to plan and implement development programs are constrained by institutional weaknesses and a shortage of skilled domestic manpower, the latter reflected in a heavy though diminishing reliance on expatriates.

Recent Economic Developments

Improved Economic Performance, 1985-88. Papua New Guinea's economic performance was on an improving trend in the second half of the 1980s. Overall economic growth revived sufficiently during 1985-88 to allow some recovery in per capita income following several years of decline. GDP growth averaged 3.7 percent during this period compared to only 1.3 percent in the first half of the decade. The acceleration of growth in output also permitted a pick-up in employment growth. The almost continuous fall in public investment occurring in the first half of the decade was halted and some ground regained. The improvement in performance was the most noticeable in macroeconomic management. Both the fiscal and balance of payments deficits were substantially reduced, inflation was curbed to below 5 percent per annum, and discipline was restored over external borrowing which was reflected in an improved debt service position. Improved fiscal performance enabled PNG to reduce its reliance on Australian budgetary support.

Most of the acceleration of economic growth occurring during this period, however, was on account of increased activity in the mining sector, which has weak linkages with the rest of the economy and a limited capacity to generate employment. Growth in the nonmining economy, the source of income and employment to the bulk of the population, also rose, but modestly, with nonmining GDP growing at an average rate of 2.3 percent compared to 1.9 percent during the first half of the 1980s. Thus, despite the stronger overall growth, the increase in employment was insufficient to keep unemployment, already high, from rising. An important factor underlying this outcome was the limited progress made in improving conditions for private sector investment. Private nonmineral investment continued to decline in real terms for most of this period. In the absence of broad-based growth, regional income disparities appear to have increased, with areas lacking mineral resources or established treecrop cultivation lagging behind others.

With significant improvements in the economy's macrofinancial indicators but continuing weakness of growth in the nonmining economy and the associated difficulty of creating adequate new employment opportunities, the government recognized that greater attention needed to be given to addressing the underlying structural constraints to stronger growth in the nonmining sectors. This was reflected in a step-up in efforts, toward the end of the 1985-88 period, aimed at: raising public investment; improving the allocation of public resources, particularly bolstering programs for human resource development; building up public institutional capacities, especially for the preparation and implementation of development projects; and encouraging the growth of the private sector. While the results actually achieved during this period were relatively modest in most of these areas, the initiatives taken, e.g., the introduction of a comprehensive, medium-term public investment program, helped lay the ground for stronger efforts and more substantive gains in the future.

Economic Shocks and Impact in 1989. The promising trend of improved economic performance that developed during 1985-88 was interrupted in 1989 by some severe shocks. In May 1989, the Bougainville copper and gold mine (BCL) was forced to close because of violent sabotage actions by militant landowners. Until its closure, the mine had contributed about 35 percent of export earnings, 15 percent of government revenue and 8 percent of GDP. The effects of the mine closure were compounded by sharp falls in the prices of most of PNG's commodity exports, resulting in a nearly 15 percent deterioration in the merchandise terms of trade during the year. Moreover, as the security situation in North Solomons Province deteriorated because of the Bougainville crisis, it also began to disrupt other economic activity in the province, especially production at cocoa plantations (the province produces 40-45 percent of the country's cocoa, the third most important nonmineral export). The major financial impact of these shocks in 1989 was felt on the balance of payments, with an estimated loss of potential export earnings of about 25 percent. The impact on government revenues was less, since BCL's corporate tax and dividend payments are made with a one-year lag. These developments also caused a sharp downturn in economic activity.

The government responded promptly to the deterioration in the economic situation by tightening fiscal and monetary policies, including announcing expenditure cuts, lowering the credit expansion target, and inducing an increase in interest rates. These measures contributed significantly to containing the macroeconomic imbalances arising from the aforesaid shocks. The impact of the shocks was also mitigated during 1989 by some offsetting favorable mineral sector developments, namely, an increase in copper production at the Ok Tedi mine; the start of gold production at the new Misima mine and of construction work at the Porgera gold mine; and a sizable drawdown by BCL of its offshore balances to meet its domestic tax and other payments obligations. These measures and developments allowed the overall balance of payments deficit to be contained to US$60 million (1.7 percent of GDP), and the fiscal deficit to 1 percent of GDP. While the payments deficit was much lower than would otherwise have been the case, it still entailed a significant decline in official foreign reserves, which fell to just over four months of nonmineral imports, the minimum level considered prudent by the government. Also, the economy suffered a loss of the growth momentum built up over the past few years, as the GDP growth rate fell to 1.4 percent, well below the 4 percent projected originally for the year and the estimated population growth rate of about 2.5 percent per annum.

Policies for Adjustment and Growth

The full impact of the shocks confronting the PNG economy will begin to be felt in 1990. While there is considerable uncertainty as to when the Bougainville mine might reopen, it is virtually certain that it will remain closed throughout 1990 and 1991. Moreover, the prices of most of PNG's exports are likely to register significant further drops during this period. The combined effect of the adverse shocks on the balance of payments, the fiscal position and national income could amount to as much as 12 percent, 4.5 percent and 11 percent of GDP respectively on average during 1990-91.

Without strong adjustment policies, shocks of this magnitude can easily destabilize the economy. For instance, it is estimated that in the absence of any adjustment measures, the overall balance of payments deficit in 1990 would have amounted to K 345 million (10.5 percent of GDP) and the overall fiscal deficit to K 135 million (4 percent of GDP). The government was quick in recognizing that imbalances of this magnitude would be unsustainable, and that strong stabilization measures were needed to protect foreign reserves and prevent an excessive build-up of external debt. It also recognized that the prevailing financial difficulties underscored the need, as well as provided an opportunity, to undertake more fundamental structural adjustments to accelerate the development of the nonmining economy and diversify the productive base. Accordingly, in early 1990, the government embarked on a major program of stabilization and structural adjustment with support from the IMF, the World Bank, and the Asian Development Bank.

The stabilization and structural adjustment program being implemented by the government has three main elements: (i) macroeconomic policy adjustments to ensure the maintenance of financial stability; and structural measures aimed at (ii) improvement of public resource management and (iii) promotion of nonmining private sector investment. To improve public resource management, the program comprises measures to strengthen revenue mobilization, improve the allocation and management of expenditures, and streamline the institutional framework and enhance capacities. To improve the environment for nonmining private sector investment, the program focuses on adjustments in wage and exchange rate policies to improve the international competitiveness of domestic productive activities (a 10 percent devaluation was announced in January 1990), streamlining the regulatory framework governing private foreign investment, strengthening the institutional mechanisms for investment promotion, expediting the implementation of the government's privatization program, trade policy reform and measures to strengthen the rural financial system.

Structural adjustment in the program being implemented has two dimensions: to facilitate growth-oriented adjustment in the short term and ensure an early economic recovery; and to initiate a major and systematic multiyear program of structural reform and development aimed at achieving stronger and broad-based growth on a sustained basis. Successful implementation of stabilization policies in response to the financial difficulties faced in the short term and progress on the accompanying structural adjustment program will lay the basis for a strengthening of efforts over the medium term to accelerate growth in the economy. This will comprise further structural reforms to improve public resource management and the environment for private sector development, but these will need to be supplemented by a major expansion of public investment to develop infrastructure, especially in the rural areas, and accelerated programs for human resource development and institution-building. Efforts directed at human resource development and institution-building acquire particular significance in PNG in view of the existing severe shortage of technical and managerial skills and the weak capacities of most public agencies. Another aspect of the development challenge will be to ensure broad participation in the process of growth in order to reduce the considerable disparities in income that exist among different regions of the country.

Economic Prospects

(a) *Short-Term Prospects.* Provided the current stabilization and structural adjustment program is firmly implemented, and the required additional external assistance is obtained, the prospects are good for PNG to overcome its immediate financial difficulties and achieve an early recovery of growth. The adjustment measures should allow the balance of payments deficit to be reduced to a level that can be financed from official support and is consistent with the economy's capacity to carry additional debt, while maintaining foreign reserves at around four months of nonmineral imports that is considered necessary to ensure maintenance of private investor confidence. Economic growth is expected to be negligible in 1990 but, despite the magnitude of adjustment, could recover in 1991 to its recent trend growth rate in the nonmining sector, and a much higher rate overall because of increased activity in the mining sector.

(b) *Medium-Term Prospects.* Despite the recent setbacks, PNG's medium-term economic prospects remain favorable. If the current prospects for development in the mineral sector are realized, and with successful adjustment in the short term, PNG's financial position will improve substantially as some major new mineral projects (which are expected to include four medium- to large-size gold mines and an oil field) come on stream over the next three to five years. Initially, the effect of the increasing mineral export earnings on the balance of payments is likely to be moderated by rising service payments on the large funds borrowed to finance the new projects. However, by the mid-1990s, the overall balance of payments is expected to show a strong improvement, and could begin to record significant surpluses. Because of accelerated depreciation provisions affecting taxable profits, the effect of the rising mineral export earnings on the fiscal position will be more lagged than on the balance of payments, with the major increase in government mineral revenues likely not occurring until after 1995.

Provided the agenda for structural reform and development is vigorously implemented, the economy's growth performance—and employment generation—should also improve appreciably.

External Financing Requirements and Debt Management

PNG's external financing requirements are expected to be sharply higher over the next few years. The principal reason for this is the planned development of some major mineral projects, which will be financed primarily from private capital inflows. Part of the increase in the requirements is due to the significant official balance of payments financing that will be needed to support the government's adjustment program. Official project-related financing will also need to increase to support the expansion of public investment within the framework of the public investment program, but the increase will be at a relatively moderate pace determined by the rate of growth of the requisite institutional capacities. Total external financing requirements will start to fall toward the mid-1990s as the new mineral projects are completed and begin to generate export earnings. The need for official balance of payments financing will decline with successful adjustment and increase in mineral exports from recently or about to be completed projects.

For the next few years, the external debt service ratio is expected to remain relatively high at around 28 percent on account of maturing government commercial debt contracted in the early 1980s and the servicing of the large new private sector borrowing associated with the development of mineral projects. Provided a prudent approach to external borrowing is maintained, with the government continuing to rely on concessional sources to meet most of its external financing requirements, and mineral exports increase as expected, the debt service position should improve rapidly thereafter.

PAPUA NEW GUINEA

Mid-1988 Population (mils.)	4
1988 Per Capita GNP in US$:	810

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.7	1.2	3.1	3.3	1.4
Net Indirect Taxes	3.4	4.3	6.4	8.8	8.4	9.6	..	..	..	..	..
Agriculture	41.6	28.2	33.1	30.1	33.9	37.6	3.5	2.1	2.7	4.2	2.1
Industry	17.9	36.1	26.8	32.0	30.5	29.6	..	..	5.6	4.0	-1.0
(of which Manufacturing)	..	5.7	9.5	10.2	8.8	10.2	..	..	1.0	1.0	1.0
Services	40.5	35.7	40.0	38.0	35.5	32.8	8.3	-3.0	2.0	2.1	1.7
Resource Balance	-19.9	10.1	-10.1	-5.4	-5.0	-10.0	..	..	..	..	..
Exports of GNFS /1	18.0	44.9	43.2	44.2	44.7	42.1	20.3	1.2	5.0	3.0	1.2
Imports of GNFS	38.0	34.8	53.3	49.7	49.7	52.1	11.2	4.5	-0.5	7.0	-2.9
Total Expenditures	119.9	89.9	110.1	105.4	105.0	110.0	6.3	2.7	0.7	5.2	-0.5
Total Consumption	98.3	75.0	85.6	83.4	79.4	86.0	4.4	2.4	1.3	1.5	2.0
Private Consumption	64.1	47.8	61.5	61.6	58.3	62.1	6.0	4.8	2.1	1.3	0.2
General Government	34.2	27.2	24.1	21.8	21.1	23.9	2.4	-2.0	-0.6	2.2	7.1
Gross Domestic Investment	21.6	15.5	25.2	22.1	25.6	24.0	10.9	3.8	-1.5	18.9	-9.2
Fixed Investment	19.0	14.2	23.1	20.8	23.2	24.9	10.5	3.5	-1.7	15.8	15.4
Changes in Stocks	2.6	1.2	2.1	1.2	2.3	-0.9	..	..	..	..	..
Gross Domestic Saving	1.7	25.5	15.1	16.6	20.6	14.0	37.9	-5.6	10.4	25.7	-33.5
Net Factor Income	-0.9	-6.3	-3.4	-2.9	-5.9	-5.5	..	..	..	..	..
Net Current Transfers	0.0	-0.4	-4.2	-3.4	-3.5	-3.6	..	..	..	..	..
Gross National Saving	0.7	18.8	7.5	10.3	11.2	4.9	35.3	-7.7	..	7.4	-58.0

In millions of Kina (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	1,282	2,116	2,264	2,747	2,837	2,877	6.7	1.2	3.1	3.3	1.4
Capacity to Import	251	1,284	1,166	1,215	1,313	1,144	20.1	-0.3	3.2	8.1	-12.9
Terms of Trade Adjustment	90	512	292	0	62	-123	..	..	..	..	..
Gross Domestic Income	1,372	2,628	2,556	2,747	2,899	2,755	8.0	0.4	2.4	5.5	-5.0
Gross National Product	1,270	1,952	2,176	2,669	2,668	2,726	5.7	2.1	3.1	0.0	2.2
Gross National Income	1,359	2,464	2,468	2,669	2,729	2,604	7.1	1.2	2.3	2.3	-4.6

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64) /2	67.0	91.8	96.8	100.0	105.5	111.3	..	8.4	5.8	5.5	4.5
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	75.5	91.5	93.5	100.0	108.6	108.4	6.6	8.3	4.8	8.6	-2.4
Implicit Expenditures Defl.	66.5	91.3	94.9	100.0	106.2	113.3	5.3	8.9	5.7	6.2	6.6

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.3	2.5	2.7
Labor Force	..	..	..
Gross Natl. Income p.c.	4.7	-1.3	-0.4
Private Consumption p.c.	3.6	2.2	-0.6
Import Elasticity:			
Imports (G+NFS) / GDP(mp) /3	1.7	3.8	-0.2
Marginal Savings Rates:			
Gross National Saving	44.3	-1287.8	49.6
Gross Domestic Saving	52.0	523.4	60.2
ICOR (period averages) /4	..	27.2	9.8

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	13.2	11.6	11.2	..
Industry	36.1	34.7	32.6	..
Services	50.7	53.6	56.1	..
Total	100.0	100.0	100.0	100.0

Notes:

1/ Goods and nonfactor services.
2/ Denotes the line number in the country pages of the International Financial Statistics, IMF.
3/ At market prices.
4/ Incremental capital-output ratio.
e/ Estimated data.

E. Merchandise Exports	Volume Index 1981	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) e/ 1981	1985	1986	1987	1988	1989
X.MET.AU	50.8	92.5	105.8	100.0	102.3	90.8	236	335	431	489	491	373
X.MET.CU	65.0	80.4	86.5	100.0	105.7	99.6	200	209	210	372	591	569
X.BEV.COFFEE	71.1	62.7	81.9	100.0	69.1	122.8	109	118	215	148	131	162
X.BEV.COCOA	62.9	89.8	89.8	100.0	107.8	134.3	52	62	58	62	52	51
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	244	248	209	269	305	314
Total Exports FOB	77.8	87.6	95.4	100.0	99.0	107.7	842	972	1,122	1,340	1,569	1,469
F. Merchandise Imports												
Food	103.6	95.3	101.8	100.0	..	..	224	166	185	203	256	248
Fuel and energy	98.2	82.7	101.6	100.0	..	..	184	184	115	145	171	164
Other Consumer Goods	102.6	90.3	83.7	100.0	..	..	280	149	156	212	242	239
Other Intermed. Goods	85.3	84.7	89.3	100.0	..	..	255	240	272	342	405	379
Capital goods	122.1	95.7	112.1	100.0	..	..	373	304	384	390	516	493
Total Imports CIF	102.4	89.4	98.8	100.0	..	..	1,316	1,043	1,112	1,292	1,589	1,522

G. Merchandise Terms of Trade/5	1981	1985	1986	1987	1988	1989
Merch. Exports Price Index	98.0	79.4	83.7	100.0	109.1	96.3
Merch. Imports Price Index	100.7	91.4	88.9	100.0	111.0	112.7
Merch. Terms of Trade	97.4	86.8	94.2	100.0	98.3	85.5

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,027	982	1,099	1,293	1,559	1,626
Merchandise (FOB)	984	918	1,027	1,196	1,437	1,469
Non-Factor Services	43	64	72	97	122	157
Imports of Goods & NFS	1,322	1,164	1,227	1,585	1,637	1,915
Merchandise (FOB)	1,021	875	925	1,208	1,201	1,336
Non-Factor Services	302	289	301	377	436	579
Resource Balance	-295	-182	-128	-292	-78	-289
Net Factor Income	-180	-104	-111	-134	-178	-199
(interest per DRS) /6	52	130	135	156	153	161
Net Current Transfers	-106	-89	-78	-104	-125	-129
(workers' remittances)	..	..	..	..	42	46
Curr. A/C Bal. before Off. Transf.	-580	-375	-317	-530	-381	-617
Net Official Transfers	267	219	212	204	218	216
Curr. A/C Bal. after Off. Transf.	-314	-156	-105	-326	-163	-401
Long-Term Capital Inflow	101	121	125	125	84	323
Direct Investment	60	83	82	71	89	222
Net LT Loans (DRS data)	64	172	152	63	-38	11
Other LT Inflow (Net)	-22	-134	-110	-9	34	90
Total Other Items (net)	143	32	-21	195	30	18
Net Short Term Capital	11	2	5	49	27	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	133	31	-26	146	3	18
Changes in Net Reserves	69	3	1	7	49	60
Net Credit from the IMF	-7	-5	-11	18	0	-3
Other Reserves Changes	76	8	12	-12	49	63
As Share of GDP:						
Resource Balance	-11.6	-7.6	-4.8	-9.4	-2.1	-8.0
Interest Payments	2.0	5.4	5.1	5.0	4.2	4.5
Current Account Balance	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:						
Reserves excl. Gold (mil. US$)	423	443	425	437	393	384
Reserves incl. Gold (mil. US$)	458	463	450	467	419	410
Official X-Rate (Kina/US$)	0.67	1.00	0.97	0.91	0.87	0.86
Index Real Eff. X-R Base 1980	100.00	94.07	89.00	87.97	87.02	89.94
GDP (millions of current US$)	2,548	2,403	2,652	3,115	3,637	3,617

Notes:

5/ In US$ terms.
6/ The Bank's Debtor Reporting Service.
e/ Estimated data.

I. Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	33.8	29.7	29.7	29.3	28.0	32.3	5.5	7.2	8.5	6.6	14.0
Current Expenditures	28.2	29.6	28.4	27.2	25.6	29.1	7.6	2.5	5.1	5.3	12.3
Current Budget Balance	5.6	0.1	1.3	2.1	2.4	3.2	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	7.0	2.4	4.3	3.4	3.5	4.1	-5.7	88.5	-11.7	13.0	18.3
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-1.4	-2.4	-3.0	-1.3	-1.1	-1.0	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	2.8	0.1	1.9	2.2	-0.6	-0.2	..	..	..	..	..
Domestic Non-Bank Financing	-0.2	..	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	-1.2	..	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) e/ 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	89	41	78	45	-34	16	485	1,073	1,242	1,445	1,269	1,427
Official Creditors	39	43	60	107	32	67	188	484	597	809	718	790
Multilateral	33	29	26	96	26	60	152	359	411	564	513	579
of which IBRD	0	9	9	23	24	14	55	75	99	148	162	172
of which IDA	13	4	0	-1	0	-1	55	109	112	117	114	113
Bilateral	6	14	34	11	6	7	36	125	186	245	205	211
Private Creditors	50	-2	17	-63	-66	-50	297	589	645	636	552	637
Suppliers	-1	2	1	-1	-3	-3	2	18	19	18	15	11
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	-25	130	75	19	-4	-6	139	1,020	1,095	1,135	860	958
Total LT	64	172	152	63	-38	11	624	2,093	2,338	2,580	2,129	2,385
IMF Credit	8	-8	-16	-5	-5	-3	31	29	15	12	6	3
Net Short-Term Capital	11	2	5	49	27	0	64	146	62	105	135	135
Total incl. IMF & Net ST	83	165	140	107	-16	7	719	2,268	2,415	2,697	2,270	2,523

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD /7						
1. IBRD as % of Total	8.73	3.58	4.25	5.73	7.60	7.22
2. IDA as % of Total	8.83	5.19	4.78	4.52	5.37	4.73
3. IBRD+IDA as % of Total	17.56	8.77	9.03	10.25	12.97	11.95
Share of LT Debt Service						
1. IBRD as % of Total	5.11	2.58	3.51	3.84	4.63	7.56
2. IDA as % of Total	0.32	0.30	0.28	0.28	0.27	0.35
3. IBRD+IDA as % of Total	5.43	2.88	3.80	4.13	4.90	7.91
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	57.40	201.75	196.48	190.94	123.79	135.23
2. IMF Credit/Exports	2.84	2.79	1.27	0.89	0.35	0.18
3. Short-Term Debt/Exports	5.89	14.07	5.21	7.77	7.84	7.65
4. LT+IMF+ST DOD/Exports	66.13	218.60	202.96	199.61	131.99	143.07
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	24.49	87.10	88.16	82.83	58.54	65.95
2. IMF Credit/GDP	1.21	1.21	0.57	0.39	0.16	0.09
3. Short-Term Debt/GDP	2.51	6.08	2.34	3.37	3.71	3.73
4. LT+IMF+ST DOD/GDP	28.22	94.38	91.06	86.58	62.41	69.76
Debt Service /Exports						
1. Public & Guaranteed LT	5.63	11.77	9.35	12.41	16.13	14.00
2. Private Non-guaranteed LT	5.71	23.38	23.42	24.38	14.02	15.25
3. Total Long-Term Debt Service	11.34	35.15	32.76	36.78	30.15	29.25
4. IMF Repurchases+Serv. Chgs.	0.68	0.91	1.44	0.38	0.31	0.17
5. Interest only on ST Debt	1.76	0.80	0.29	0.67	0.74	0.74
6. Total (LT+IMF+ST Int.)	13.78	36.86	41.56	37.84	31.20	33.23

Notes:

7/ Debt outstanding and disbursed.
e/ Estimated data.

Paraguay

Agriculture, including livestock and forestry, is Paraguay's main economic activity, accounting for about 30 percent of GDP, half of employment, and 90 percent of merchandise exports. Most of Paraguay's manufacturing industry consists of processing agricultural inputs. The country has abundant land resources for farming and raising livestock as well as large forest areas. Major hydropower resources are another important asset. Itaipu, a massive hydroelectric dam on the Parana river constructed jointly with Brazil, is already operational and the last turbine is expected to be installed in 1990.

Expansion in output through the 1970s and until 1981 was, at 8.5 percent per year, among the highest in Latin America. The impetus was agriculture, based on the opening up of many new areas of commercial and especially export endeavors, the construction of the Itaipu dam, and the start of work on the Yacireta power complex (a large hydroelectric plant being built jointly with Argentina).

Output was stagnant in the mid-1980s. This began with slowdown from completion of major construction in Itaipu, postponement of the Yacireta project, and the latent financial disequilibrium that finally came into the open in 1982.

With the construction of Itaipu and related capital inflows in the earlier period, Paraguay had accumulated substantial amounts of foreign reserves, which were fully monetized. Inflation increased and the nominal exchange rate was kept constant; the domestic currency appreciated in real terms. Although public finances suffered from an inelastic tax system that could not keep pace with inflation, this weakness went unnoticed while the economy underwent rapid expansion. As construction in Itaipu gradually came to an end in the early 1980s, the country faced a severe foreign exchange shortage. Public finances remained weak, with resulting and continuing inflation; however, this time the exchange rate could not be maintained. The government resorted to an inefficient system of multiple exchange rates. Exporters were forced to sell foreign exchange to the central bank at a price below market (an implicit export tax). In addition, the central bank incurred foreign exchange losses by selling foreign currency to the government at even lower prices. Financial problems mounted and employment prospects faded. The world recession in 1981-82 and financial crisis in neighboring countries complicated the social picture even further.

Unlike most of Latin America, labor migration in Paraguay in the 1970s took place mainly within rural areas; people moved from the minifundia-plagued central area in the east to the more fertile lands closer to the fast developing Itaipu region. Migration patterns changed in the 1980s: reflecting declining rural income, labor migrated to metropolitan Asuncion and other urban areas. The result has been a large and fast growing informal sector, mostly linked to commercial activities with neighboring countries.

Capital expenditures increased from 20 to 25 percent of GDP in the late 1970s as a result of the construction of Itaipu's hydroelectric dam, but slowed to 20-21 percent of GDP in 1983-85 with the deterioration in general economic conditions and reductions in Itaipu's expenditures as works were completed. Investment increased again to over 23 percent of GDP after 1986, with recovery of private investment led by the fast development of cotton and especially soybean exports. Investment financing changed even more drastically. Foreign financing amounted to 3 percent of GDP in the early 1970s and double that at the end of that decade, as foreign capital poured in to finance Itaipu; however, internal savings increased very little in that period.

Policies were not set right to prepare the country for "post-Itaipu" conditions. Paraguay spent as if the additional resources were permanent: consumption increased and the investment projects undertaken supported unsustainable expenditure patterns. When works at Itaipu were completed and inflows of foreign exchange stopped, expenditures and growth declined, and the structure of output was inadequate to face the lower demand. The public sector tried to keep domestic demand up by starting oversized and poorly timed investments, but the result was an internal and external financial disequilibrium on top of the reduction in resources. Productivity suffered and growth declined (per capita GDP was 10 percent lower in 1987 than in 1981); the ratio of external debt (medium and long term, including arrears) to GDP went up from less than 20 percent in 1981 to more than two thirds of it in 1987; the central bank lost $340 million in foreign reserves, close to 10 percent of 1987s GDP; financial savings (quasi-money) dropped from 7.8 percent of GDP in 1981 to 4.6 percent in 1989.

In February 1989, a military coup brought to an end the 35-year rule by General Stroessner. The leader of the coup, General Rodriguez, was elected president by a large majority in a general election held in May (contested by eight political parties). A number of opposition parties now have substantial representation in the new Parliament, and political dialogue is taking place on a broad spectrum of social, political and economic issues.

Constraints to Growth

The new administration that assumed office in February 1989, confronted short-term macroeconomic problems. There was economic stagnation, caused by distortions in relative prices due to price controls, the multiple exchange rate system, and import prohibitions. Financial disequilibrium resulted from a large public sector deficit (mostly incurred in the central bank through foreign exchange losses), and drastically cut financial savings (quasi-monetary savings were almost 14 percent of GDP in 1983, but only slightly more than 6 percent in 1988). Balance of payments problems reflected the economic stagnation and financial disequilibrium, as well as negative long-term net capital inflows (excluding arrears) at -2 percent of GDP in 1988 and -0.7 percent in 1989 versus 5.4 percent attained between 1983-85.

The country also faces significant structural constraints. The financial sector is institutionally weak, fragmented, and inadequately supervised; financial institutions have proliferated while financial savings have dropped. Public enterprises have wasted resources, with some going into unneeded large expansions of capacity; and becoming financial burdens on the government. The tax system is obsolete and has not responded to changing economic conditions; hence, the share of taxes in GDP dropped from a little over 10 percent in the early 1970s to less than 7 percent in 1988. Customs duties are high and, if enforced, would provide heavy protection to some activities but in practice simpler special regimes are applied so that revenue collection is both too low and difficult to manage efficiently. Agrarian reform and landlessness also have emerged as main social and political issues and political parties are preparing their platforms around them. Thus, another important challenge to the present authorities is how to steer a steady course through the social unrest in the agrarian population.

Economic Strategy

The authorities recognize the short-term and structural issues identified above and have made important progress in dealing with many of them. They have taken bold steps to eliminate exchange rate distortions, cut distortions in relative prices, reduce public sector recourse to credit, increase financial savings, and reverse the outflows of foreign capital. A unified and floating exchange rate was implemented to eliminate the distortions due to multiple rates and their implicit tax on exports. The authorities also have removed some price controls and import prohibitions.

In the area of fiscal policy, actions undertaken include adjustments in public sector service charges, some new taxes (an explicit, lower, tax on exports replacing the previous implicit tax), restructuring of other taxes (imports), administrative improvements in tax collection, and significant cuts in expenditures, including public employment reduction. Such fiscal actions were made more compelling by the liberalization of the exchange rate, which had a severe impact on nonfinancial public sector expenditures. The subsidy on foreign exchange purchases (stemming from the implicit export tax and the central bank's foreign exchange losses) was eliminated, thus increasing nonfinancial public sector expenditures by about 8 percent of GDP. In the financial area, authorities have begun to liberalize interest rates and improve instruments of resource mobilization.

In the area of foreign trade, two existing special regimes were extended: (i) tariffs on trade of many important products with neighboring countries (Brazil and Argentina) were reduced to a flat 10 percent and (ii) tariffs on consumption items associated with border tourism (but affecting all such sales) were cut to a flat 7 percent. In the area of external debt, innovative and favorable conditions were set for dealing with the US$436 million debt with Brazil; namely, 8 years of grace, 12 years of amortization payments, and an interest rate equal to LIBOR plus 13/16. Furthermore, service payments as well as the entire principal due was permitted to be paid with Brazilian commercial debt valued at par but bought in the secondary market.

Further reforms are urgently needed in taxes, the financial sector, public enterprises, and trade policy. The authorities have taken action by preparing an important tax reform, which they plan to send to Congress in 1990 and hope to implement by 1991. The reform aims to make the tax system simpler, more responsive to economic growth, and less regressive and distorted. Measures contemplated include: (i) replacing the present profusion of taxes with a few ad-valorem levies and implementing a new value-added tax; (ii) updating of property tax assessment to reflect market values; and (iii) continuing efforts to improve tax administration and reduce evasion. On the latter point, implementation of a single taxpayer registry is already under way, and important institutional improvements in tax administration have been completed.

The authorities also expect to introduce important reforms in several other areas to help increase and sustain high growth rates in a stable financial environment. Financial system reforms will focus on increasing resource mobilization, making transparent the allocation of available resources, and improving efficiency in monetary policy management. New laws regulating commercial banks activities and the role and attributions of the central bank are being drafted. Public enterprise reforms are meant to improve use of resources and cut financial costs they impose on the government. Custom tax reforms include designing a simple system that can be efficiently managed. In the social sectors, the government intends to give priority to helping the poor through programs encouraging "colonization" and land reform in the countryside, and promoting programs emphasizing low-cost housing, health, and education in the cities.

The authorities intend to collaborate with their official and commercial bank creditors in securing adequate capital inflows.

Recent Economic Developments

After years of stagnation between 1982-87, GDP grew 6.4 percent in 1988 and 6.0 percent in 1989 due to a substantial expansion in exports stemming from healthy domestic economic policies, favorable international prices, and good weather for crops. In 1989, private capital formation is estimated to have increased faster than GDP, compensating for reductions in public investment. However, a stubborn financial disequilibrium remains. Abundant subsidized credit to the private sector through rediscounts and a rapid and unsterilized accumulation of foreign reserves were reflected in 1989 in expansionary monetary policies that explain persistent short-term difficulties. Owing to these problems, inflation rose from 17 percent at the end of 1988 to 35 percent in March 1990.

Balance of Payments. The unified and floating exchange rate implemented since February 1989 eliminated a substantial tax on exports and encouraged domestic production of tradeable goods. The new policy has boosted exports and cut imports. Registered exports more than doubled in 1989 due to prevailing policies but the underlying increase for the total is only 30 percent, as the incentives for smuggling have fallen sharply.

Foreign savings dropped and foreign reserves recovered as a consequence of the new free exchange rate policy in place. As a result of a better outlook stemming from improved policies and radical changes in public finances national savings increased more than 50 percent in real terms.

As a result of buoyant exports and imports being under control, the current account deficit declined significantly in 1989; preliminary estimates show a reduction from 9.5 percent of GDP in 1988 to 2.7 percent in 1989. This reduced deficit, together with short-term capital inflows and some buildup of arrears, allowed the central bank to accumulate more than US$200 million in foreign reserves between February and December 1989. Recovering foreign reserves was urgently needed after the substantial loses that took place between 1982 and 1988. However, because most of the accumulation took place very quickly (in just six months), it could not be properly sterilized, thereby stimulating inflation.

Voluntary long-term capital inflows (net disbursements excluding arrears) remained negative in 1989 (-0.7 percent of GDP) after being substantially positive in earlier years. However, Paraguay has not yet adjusted to these negative flows, beyond accumulating arrears. Excluding the renegotiation of the debt with Brazil (which included arrears and future amortizations), the country accumulated arrears totaling about US$160 million in 1989. A comprehensive agreement with Paris Club and London Club creditors may be required to put external financing on a sound footing.

Public Sector. Fiscal results for 1989 were much better than anticipated earlier in the year. As already pointed out, elimination of the foreign exchange tax, resulting from a unified exchange rate, was expected to mean an increase in the public sector deficit. Instead, the deficit showed a substantial reduction, declining from 8 percent of GDP in 1988 to just 3 percent in 1989. Critical elements in this result were a drastic improvement in tax collection, control of current expenditures (despite a substantial rise in government wages), and a substantial cut in public investment.

Performance in public enterprises also improved. As a consequence of wage increases and a less-than-anticipated rise in service charges, their primary current surplus (excluding interest payments) dropped from 2.1 percent of GDP in 1988 to 1.9 percent in 1989.

Most affected was PETROPAR, the monopoly for distribution of petroleum products, and CORPOSANA, the water company. The state steel (ACEPAR) and cement (INC) companies have been in financial trouble for some time and are increasingly vulnerable, but their accounts also improved in 1989. The government is considering the possibility of increasing private sector participation in their ownership and management.

External Debt. The country's external debt was US$2.5 billion at end 1989, 60 percent of GDP. Accumulated arrears were, as much as in 1988 because a reduction of arrears with Brazil (after signing an agreement in early 1989) was compensated by increases with other creditors. The agreement with Brazil also included US$275 million in future amortizations. Paraguay's scheduled debt service was US$440 million in 1988, about 40 percent of total exports; however, due to the accumulation of arrears, the actual ratio was less. In 1989, the agreement with Brazil saved Paraguay US$40 million in amortization payments (now rescheduled for future years) and US$15 million in interest payments, due to the provision that allows these payments to be made with Brazilian debt bought at a discount in international markets.

Improvements in Paraguay's external debt situation are linked to a successful implementation of the reforms outlined with support from the international financial community. In the absence of a comprehensive agreement with creditors, arrears will continue to accumulate. This could endanger the execution of the reforms mentioned. The amount of foreign financing available will depend upon the degree of support from multilateral international financial institutions, other official creditors, bilateral donors, and commercial banks.

Prospects

Growth and stability prospects are good if authorities successfully implement their strategy and the international financial environment is favorable. Reducing inflation is the country's highest short-term priority. The target is to cut inflation from 35 percent in March 1990. Chances of reaching this goal are good if fiscal discipline is continued and if the tight monetary policies of mid-1990 can be sustained. Monetary policy loosened in late 1989 and early 1990, and inflation accelerated; but it has tightened since March and is expected to tighten further. Inflation will remain low in the future if the government succeeds in keeping public finances and credit to the private sector under control, accumulates foreign reserves following a sound monetary program, maintains the free exchange rate policy, and there is no deterioration in conditions abroad. Under these circumstances growth may be around 5 percent in 1990 and would remain high in the medium term, thus also improving the employment outlook.

PARAGUAY

Mid-1988 Population (mils.)	4
1988 Per Capita GNP in US$:	1,180

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.0	9.7	1.7	6.5	6.1
Net Indirect Taxes	5.7	5.1	6.0	4.9	4.8	..	..	..	..	..	..
Agriculture	36.7	37.7	28.6	27.3	29.6	29.5	2.7	6.4	2.7	12.1	10.4
Industry	18.8	20.4	27.4	25.7	22.1	22.4	6.8	13.5	0.1	2.7	-6.8
(of which Manufacturing)	15.5	16.0	16.0	16.2	16.8	17.1	6.1	9.1	1.3	5.8	6.3
Services	44.5	41.9	43.9	46.9	48.2	48.1	6.0	9.8	2.0	5.3	10.2
Resource Balance	-0.8	0.7	-13.4	-10.2	-1.7	-6.4	..	..	..	..	..
Exports of GNFS	15.0	15.0	15.3	22.2	26.4	33.9	4.5	11.9	9.6	28.5	12.7
Imports of GNFS	15.8	14.3	28.7	32.4	28.1	40.3	7.9	17.9	2.7	0.3	11.9
Total Expenditures	100.8	99.3	113.4	110.2	101.7	106.4	5.6	10.9	0.6	0.2	6.1
Total Consumption	85.7	80.3	85.5	82.0	78.6	85.4	5.0	9.0	1.5	-0.9	10.9
Private Consumption	78.9	73.8	79.4	75.5	73.0	..	4.9	8.9	1.3	-1.8	..
General Government	6.8	6.5	6.0	6.5	5.6	..	6.2	9.0	3.7	10.0	..
Gross Domestic Investment	15.1	19.0	27.9	25.1	24.4	21.0	8.3	17.1	-2.1	3.9	-9.6
Fixed Investment	14.3	16.3	26.5	23.7	23.1	..	..	18.1	-2.6	3.7	..
Changes in Stocks	0.8	2.8	1.5	1.4	1.2	..	..	..	..	..	..
Gross Domestic Saving	14.3	19.7	14.5	14.9	22.6	14.6	10.8	10.4	1.9	61.3	-26.0
Net Factor Income	-1.1	-1.7	0.9	-4.4	-3.5	-1.2	..	..	..	..	..
Net Current Transfers	0.0	0.2	0.0	0.6	0.6	0.3	..	..	..	..	..
Gross National Saving	13.2	18.3	15.5	10.6	19.2	14.0	10.6	12.6	-2.6	85.7	-16.3

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	766	1,135	2,199	2,494	2,655	2,816	5.0	9.7	1.7	6.5	6.1
Capacity to Import	105	219	377	555	761	763	10.3	11.2	9.0	37.1	0.3
Terms of Trade Adjustment	-56	20	40	0	48	-39	..	..	..	..	..
Gross Domestic Income	711	1,154	2,239	2,494	2,704	2,777	5.9	9.4	1.6	8.4	2.7
Gross National Product	758	1,113	2,221	2,385	2,555	2,793	4.9	10.2	0.8	7.1	9.3
Gross National Income	702	1,133	2,261	2,385	2,603	2,754	5.8	9.8	0.8	9.2	5.8

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	30.0	62.3	82.1	100.0	122.8	..	3.3	13.1	19.9	22.8	..
Wholesale Prices (IFS 63)	27.4	61.6	89.4	100.0	127.1	..	5.2	13.1	22.5	27.1	..
Implicit GDP Deflator	26.2	58.3	76.7	100.0	125.0	164.1	4.3	11.8	22.1	25.0	31.2
Implicit Expenditures Defl.	25.5	59.3	78.0	100.0	122.6	168.3	3.4	12.0	22.6	22.6	37.2

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.7	3.2	3.2
Labor Force	..	..	..
Gross Natl. Income p.c.	3.1	6.4	-2.3
Private Consumption p.c.	2.2	5.6	-1.8
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.6	1.8	1.6
Marginal Savings Rates:			
Gross National Saving	27.4	11.9	46.2
Gross Domestic Saving	28.8	8.9	58.2
ICOR (period averages):	..	2.4	11.9

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	54.6	51.3	48.6	..
Industry	19.5	20.3	20.5	..
Services	25.8	28.4	30.9	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.OAGRI.COTTON	..	..	..	..	..	..	107	142	81	101	210	..
X.FOOD.X	62.5	62.6	43.5	100.0	66.6	..	106	130	76	162	218	..
X.TIM	195.7	20.5	60.3	100.0	21.9	..	67	10	18	28	16	..
X.FOOD.MEAT	13.4	18.3	162.4	100.0	114.2	..	1	2	34	21	23	..
Manufactures	182.1	27.3	55.2	100.0	43.2	..	86	25	37	59	53	..
Residual	0.3	80.8	85.6	100.0	121.2	..	34	312	328	430	579	..
Total Exports FOB	66.0	71.0	70.1	100.0	98.7	..	400	620	573	800	1,098	..
F. Merchandise Imports												
Food	469.5	276.5	155.4	100.0	67.1	..	18	17	11	6	4	..
Fuel and energy	121.5	66.5	69.0	100.0	67.1	..	139	118	97	132	94	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	172.4	82.4	87.6	100.0	67.1	..	151	128	140	196	139	..
Capital goods	126.4	62.8	69.5	100.0	67.0	..	148	96	133	184	130	..
Total Imports CIF	117.4	81.6	81.8	100.0	104.2	..	675	727	736	935	1,029	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	75.8	109.2	102.1	100.0	139.0	..
Merch. Imports Price Index	61.5	95.4	96.2	100.0	105.7	..
Merch. Terms of Trade	123.2	114.4	106.0	100.0	131.5	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	701	649	780	825	1,112	1,303
Merchandise (FOB)	583	466	575	595	826	1,019
Non-Factor Services	118	184	205	230	286	284
Imports of Goods & NFS	1,314	866	1,139	1,236	1,457	1,320
Merchandise (FOB)	1,054	659	879	933	1,040	874
Non-Factor Services	260	207	260	303	417	446
Resource Balance	-613	-216	-359	-411	-345	-17
Net Factor Income	-4	-13	-107	-130	-67	-84
(interest per DRS)	45	80	91	96	114	131
Net Current Transfers	0	8	11	27	35	15
(workers' remittances)	2	0	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-618	-221	-455	-514	-376	-86
Net Official Transfers	5	0	0	0	0	0
Curr. A/C Bal. after Off. Transf.	-613	-221	-455	-514	-376	-86
Long-Term Capital Inflow	560	163	101	12	-103	-79
Direct Investment	30	8	31	9	6	21
Net LT Loans (DRS data)	125	163	103	88	-77	-35
Other LT Inflow (Net)	405	-8	-34	-84	-32	-65
Total Other Items (net)	204	-46	181	430	290	217
Net Short Term Capital	0	-65	10	85	-52	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	204	18	171	345	343	217
Changes in Net Reserves	-151	105	174	72	189	-52
Net Credit from the IMF	..	..	..	..	..	..
Other Reserves Changes	-151	105	174	72	189	-52
As Share of GDP:						
Resource Balance	-13.4	-6.8	-10.1	-9.1	-5.7	-0.4
Interest Payments	1.0	2.5	2.6	2.1	1.9	3.0
Current Account Balance	-13.5	-7.0	-12.8	-11.3	-6.2	-2.0
Memorandum Items:						
Reserves excl. Gold (mil. US$)	762	534	447	497	324	..
Reserves incl. Gold (mil. US$)	783	545	461	514	338	0
Official X-Rate (LCUs/US$)	126.00	306.67	339.17	550.00	550.00	1056.22
Index Real Eff. X-R Base 1980	100.00	72.28	72.68	58.32	60.40	46.02
GDP (millions of current US$)	4,579	3,163	3,544	4,535	6,035	4,374

I. Central Government Budget	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Current Receipts	8.7	7.6	7.4	7.8	7.6	..	..	..	..	..	..
Current Expenditures	6.3	6.6	6.1	6.1	5.6	..	..	..	..	..	..
Current Budget Balance	2.4	0.9	1.3	1.7	2.1	..	..	..	..	..	..
Capital Receipts	..		..	..	..	..	..	..	..	..	..
Capital Expenditures	2.2	2.4	0.6	1.6	1.9	..	..	..	..	..	..
Adjustments	-0.5	-0.1	-0.2	-0.1		..	..	..	..	..	..
Overall Deficit	-0.3	-1.6	0.6	-0.1	0.1	..	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	0.4	0.8	0.2	0.1	0.3	..	..	..	..	..	..
Domestic Non-Bank Financing	-0.2	0.8	-0.8		-0.4	..	..	..	..	..	..
Domestic Bank Financing	..	..	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	113	169	121	90	-77	-34	633	1,537	1,832	2,222	2,091	2,038
Official Creditors	38	170	93	78	-22	49	409	1,045	1,263	1,351	1,270	1,759
Multilateral	36	71	63	60	-9	8	193	539	671	831	778	788
of which IBRD	29	24	6	-17	-25	-22	80	248	315	372	315	282
of which IDA	3	-1	-1	-1	-1	-1	45	46	45	44	43	42
Bilateral	2	99	30	18	-13	41	216	506	592	520	493	971
Private Creditors	74	-1	28	12	-55	-83	225	493	570	872	821	279
Suppliers	14	-9	-8	-6	3	-10	75	39	36	35	35	14
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	13	-6	-18	-3	-1	-1	151	104	86	28	28	27
Total LT	125	163	103	88	-77	-35	784	1,641	1,919	2,251	2,119	2,065
IMF Credit	0	0	0	0	0	0	0	0	0	0	0	0
Net Short-Term Capital	0	-65	10	85	-52	0	174	178	174	241	375	375
Total incl. IMF & Net ST	125	98	113	173	-130	-35	958	1,819	2,092	2,492	2,493	2,440

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	10.14	15.10	16.40	16.54	14.86	13.66
2. IDA as % of Total	5.73	2.80	2.35	1.96	2.04	2.04
3. IBRD+IDA as % of Total	15.87	17.90	18.75	18.50	16.90	15.71
Share of LT Debt Service						
1. IBRD as % of Total	5.84	20.12	20.89	29.06	25.27	18.31
2. IDA as % of Total	0.48	0.62	0.54	0.53	0.42	0.38
3. IBRD+IDA as % of Total	6.31	20.74	21.43	29.59	25.68	18.69
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	100.10	225.32	228.30	263.61	179.12	151.80
2. IMF Credit/Exports	0.00	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/Exports	22.22	24.41	20.64	28.27	31.66	27.57
4. LT+IMF+ST DOD/Exports	122.32	249.73	248.94	291.88	210.78	179.37
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	17.12	51.89	54.13	49.63	35.11	47.19
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	0.00	0.00
3. Short-Term Debt/GDP	3.80	5.62	4.90	5.32	6.21	8.57
4. LT+IMF+ST DOD/GDP	20.92	57.51	59.03	54.96	41.31	55.77
Debt Service /Exports						
1. Public & Guaranteed LT	10.25	21.17	24.21	25.83	24.37	25.13
2. Private Non-guaranteed LT	5.72	1.00	2.38	0.46	0.05	0.08
3. Total Long-Term Debt Service	15.97	22.17	26.59	26.28	24.42	25.21
4. IMF Repurchases+Serv. Chgs.						
5. Interest only on ST Debt	2.77	0.04	0.12	1.75	1.70	1.18
6. Total (LT+IMF+ST Int.)	18.74	22.21	30.16	28.03	26.12	26.39

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Philippines

While economic growth was rapid during the 1970s, distortions in the pattern of incentives produced inefficient patterns of investment, slow growth in employment and low levels of domestic savings. The economy was heavily dependent on imports and foreign capital, and did not adjust well to the severe external shocks of the post-1979 period—high oil prices, high interest rates, and declining export prices. While some adjustments undertaken during the early 1980s were effective, the economy experienced declining growth rates, a deteriorating balance of payments, and the accumulation of a large external debt. A domestic political crisis in 1983, combined with a worldwide debt crisis, led to a cessation of foreign credits, and forced the government to embark on a major stabilization effort.

To deal with the economic crisis, the government undertook a stabilization program, in late 1984. Fundamental economic reforms were introduced in order to restructure imbalances in the incentive regime and institutional framework. External debt service obligations to private banks and official bilateral creditors were rescheduled. The peso was allowed to float and exchange controls, introduced in the 1983 crisis period, were eliminated. Monetary growth was brought under control, and the budget deficit was reduced in size. Important structural reforms were initiated in the agricultural sector designed to improve accountability and marketing efficiency. Price controls on many basic commodities, including rice, were dropped.

Since the change in government in February 1986, the new administration has placed a high priority on economic recovery. The overall approach of the government, as contained in the Medium-Term Development Plan and its updates, emphasizes three key principles: (a) greater attention to poverty alleviation and social justice; (b) acceleration of growth and increased economic efficiency; and (c) reduced government involvement in the economy and an emphasis on private initiative. The role of the government is clearly seen as intervening in the economy only in those areas where the private sector cannot meet social needs, and where there is comparative advantage for public action. While estimates of poverty are necessarily fragile, in 1988 about 50 percent of the population was below the poverty line; while this is a moderate improvement—the incidence of poverty was estimated at 57 percent in 1985—the scale and persistence of the problem indicate that it remains a significant challenge. The wide-spread and deep-rooted poverty can be attributed to disappointing growth of employment and real wages, particularly in manufacturing. On top of this, there has been a very rapid growth of the labor force. Since 1980, the labor force has grown at an average rate of 4.5 percent per year. The result has been downward pressure on real wages and falling level of output per worker. The government intends to place heavy emphasis on programs to reduce poverty, raise employment, particularly in rural areas, and stimulate agricultural production, and is committed to reducing special privileges, tax exemptions, and subsidies for special interest groups.

In light of these objectives, the government abolished most agricultural export taxes and the ban on copra exports, eliminated the special levy on fertilizer, reduced taxes on pesticides, and liberalized coconut oil exports. Monopolies in sugar and coconut trading have been dismantled, and subsector institutional arrangements are being rationalized. Regarding agrarian reform, major new legislation to expand land reform to areas other than rice and corn lands has been approved; however, progress in implementation has been slow. The government is seeking financial assistance from external donors for implementation of the reform.

Major reforms have been initiated to restructure the major government financial institutions, and bring them under closer supervision. The two main government owned banks, the Philippines National Bank and the Development Bank of the Philippines, had become a major financial drain on the budget. A reform program agreed in 1986 removed their nonperforming accounts, reorganized and reduced the staffs of the banks, and initiated important institutional improvements. As a result, the banks are producing profits for the first time in several years. Assets taken over by the government, have begun to be sold back to the private sector. Four commercial banks, which had been taken over by the government, have also been privatized. In addition, the government has undertaken a program for the reform of nonfinancial public corporations. Within this program, the government has identified 226 nonfinancial corporations for privatization, reorganization or liquidation over the coming years, has completed the sale of 35 of them, and has taken steps to improve the operations of an additional 73 that will remain in the public sector.

In other areas, the government has moved forward with a trade liberalization program leading to the removal of import restrictions on a wide variety of products, and to the rationalization of the trade protective measures. A major tax reform launched in 1986 simplified the overall tax structure, reduced the tax burden on the poor, and improved collection efficiency. A value added tax was introduced in January 1988 to replace a series of sales and excise taxes, which had a distortionary effect on production incentives. The government carried out a comprehensive review of its investment program in 1986 and reordered the priorities to conform to the objectives of the Development Plan. This led to a reduction of the investment program below a desirable minimum; the government has since established an overall goal of raising public investment to 5 percent of GDP and has made some progress toward it. Operations and maintenance expenditures were increased substantially in 1987 and have since been maintained in line with pre-stabilization levels. Several Bank and Fund adjustment operations have been supporting, and continue to support, the reforms in government financial institutions and nonfinancial corporations, tax and expenditure policies, and trade liberalization.

In general, the impact of recent reforms has been to remove many of the distortions in product and factor prices that adversely influenced growth and investment decisions during the 1970s. The reforms have also resulted in considerably less discrimination against agriculture. In conjunction with the stabilization efforts of the government, these reforms have resulted in impressive economic recovery in 1987-89, with GDP growing at 6 percent per annum on average and inflation being maintained at about 10 percent.

While growth, led by the private sector and by investment, continued in 1989, a deterioration of the fiscal situation and a widening of the current account deficit took place, with infrastructure and services coming under unsustainable pressure, resulting in breakdowns in transport and power supply which have continued during the first quarter of 1990. In addition, the country still faces many other obstacles in maintaining growth in the medium term. These include a heavy external debt burden, a high degree of poverty and unemployment, inadequate infrastructure and an inadequate rate of domestic savings. In addition, agricultural productivity continues to be adversely affected by gradual deterioration of soil and forest resources, as a result of rapid population growth in upland areas, and weak management of public resources.

External Debt

The heavy reliance on foreign credits prior to 1983 resulted in a sharp rise in the overall level of external debt, and the Philippines today is one of the world's most heavily indebted countries. Total debt rose from $13 billion at the end of 1979 to $30 billion at the end of 1989. Debt service, after reaching a peak of 42 percent of exports of goods and services in 1982, was 29 percent in 1989, as a result of a series of official and private reschedulings reached over the past three years.

The Philippines obtained two reschedulings in 1984 and 1986 from the Paris Club totalling about $1.2 billion in total relief, and additional rescheduling agreed in 1989 is expected to amount to approximately $2 billion over the period 1989-1992. Two reschedulings were agreed with the private commercial banks. The first of these, agreed in 1985, rescheduled about $6 billion in repayments and arrears from 1983-86 period; the second rescheduled $9 billion in payments due over the 1987-92 period. In order to further reduce its debt burden, the government has introduced a debt-equity swap program, allowing private foreign investors to make equity investments by trading in debt purchases in the secondary market.

Following the last Consultative Group Meeting held in Tokyo in July 1989, foreign donors have agreed to provide under the umbrella of the Philippine Assistance Plan $3.5 billion of assistance during 1990, about double the level pledged during the previous (1987) meeting. Further support at this level was also indicated, provided that the Philippines secured continued debt relief and new money commitments from the commercial banks, and demonstrated a growing capacity to absorb external assistance. In addition, agreement on a financing package from commercial bank creditors was reached in October 1989. The agreement—which was voluntary and market-based—has three main components: new money, debt and debt service reduction, and restructuring of existing bank debt. As a result, $1.3 billion of commercial debt has been repurchased in 1990 at 50 percent discount; the interest rate spread over LIBOR on the remaining commercial debt was reduced marginally by one-sixteenth of one percent; and new money of about $700 million was contributed by commercial banks. The Bank, the Fund, and other official lenders supported the debt-buyback component of the package.

Savings and Investment

Although the country has enjoyed rapid growth in the last three years despite low investment rates, it will be necessary to raise the investment rate to a level sufficient to maintain the planned rate of growth as excess capacity is exhausted. To sustain future growth of 5-6 percent will require substantial improvements in infrastructure, as power and transport have already experienced breakdowns, and an overall investment rate of 22-25 percent of GNP. To raise the overall investment rate to this level, however, will require a substantial increase in domestic savings, since only a relatively small part of this investment could be expected to be financed through the balance of payments. There is also a need to increase the overall efficiency of investment through streamlining of administrative processes and revisions of the public investment program and government maintenance expenditures to reflect government priorities. The government has initiated an action program to improve performance in these areas.

Raising the savings rate may be difficult, particularly in light of the need to undo past declines in private consumption and provide for some real improvement in living standards. The private sector savings rate averaged about 15 percent of GNP between 1985 and 1989. The public sector, however, was a net dissaver, with an average rate of -3 percent during the same period. This, together with limited access to foreign borrowing, has led to substantial competition between the private and public sector for investment funds and to increasing pressure on real interest rates. Thus, unless the public sector does a better job of mobilizing its own resources the competition for investible funds will result in a crowding out of the private sector, and a constraint on future private sector investments.

Medium-Term Strategy and External Resource Needs

A sustainable recovery will depend on the government's ability to maintain a stable macroeconomic framework, provide the necessary public investment where complementary to private sector growth, stimulate growth of exports, increase public and private savings, and use investment resources more efficiently. Attention will have to be directed at industrial restructuring, further reform of the financial system, trade liberalization, and institutional improvements in agriculture. A combination of government actions, a restoration of private sector confidence and increased external assistance should permit growth to continue at an average annual rate of about 5-6 percent.

While growth is necessary to provide the economic progress so essential to maintaining stability, it is not by itself sufficient. The structure of growth must be oriented to reducing poverty and increasing employment; the benefits of growth must be spread widely through the population and geographically throughout the country. Increased attention needs to be given in the future to expanding the family planning program so that it reaches the poor, and integrating the program with health and nutrition services. The education system needs to be made more effective, in order to reduce dropouts among poor students, and to improve the quality of education in rural areas. Basic infrastructure in rural areas, particularly roads, electricity and telecommunications, need to be expanded. More attention should be given to the management of natural resources.

Given the likely growth and the debt service obligations, future external resource needs to support the government's strategy will be considerable and will call, for a concerted effort of all donors and the government to mobilize the necessary resources. The increase in capital inflow is estimated to increase the total debt outstanding somewhat over the next eight years. It is estimated, however, that the overall debt burden will be substantially reduced, as measured either as the share of debt or in terms of debt service ratio. This reduction will be achieved through more rapid growth of GNP and exports, which underlines the importance of future economic and social reforms, as well as additional debt restructuring including debt buy-back.

The government stabilization and structural adjustment programs are supported by multilateral, bilateral and private creditors. Total disbursements from all official sources totalled $1.2 billion in 1988. The Bank is centrally involved in aid coordination through its chairmanship of a Consultative Group, and its central role in the Multilateral Assistance Initiative (MAI). In formulating its assistance strategy, the Bank has cooperated closely with the IMF.

PHILIPPINES

Mid-1988 Population (mils.)	60
1988 Per Capita GNP in US$:	630

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.4	6.3	0.0	6.3	6.1
Net Indirect Taxes	6.4	8.8	9.7	9.9	7.8	8.3	..	..	..	..	..
Agriculture	25.9	29.3	23.3	24.1	23.0	23.5	4.1	5.0	1.8	3.5	4.0
Industry	27.9	33.2	36.6	32.8	33.6	33.3	7.4	7.8	-1.8	8.5	7.1
(of which Manufacturing)	19.5	25.2	24.4	24.5	25.1	25.0	8.5	5.7	-0.3	8.9	6.9
Services	46.3	37.5	40.1	43.1	43.4	43.3	4.8	5.8	0.7	6.3	6.4
Resource Balance	0.0	3.5	-5.7	0.9	0.6	-1.3	..	..	..	..	..
Exports of GNFS	17.2	22.0	20.2	23.1	24.6	24.8	1.8	8.2	5.2	15.9	11.7
Imports of GNFS	17.2	18.5	26.0	22.2	24.0	26.2	3.1	8.5	1.0	33.5	22.4
Total Expenditures	100.0	96.5	105.7	99.1	99.4	101.3	5.6	6.4	-0.7	10.2	9.1
Total Consumption	85.4	75.4	75.3	82.5	81.9	82.6	5.9	4.8	2.3	8.8	7.8
Private Consumption	76.4	66.8	67.3	74.3	73.1	73.4	5.7	4.9	2.5	9.0	7.9
General Government	9.0	8.6	8.0	8.3	8.8	9.2	8.4	4.2	0.5	7.2	7.7
Gross Domestic Investment	20.8	20.2	30.7	15.6	17.3	18.8	4.4	11.1	-10.8	17.5	15.6
Fixed Investment	17.6	15.8	25.7	13.9	15.3	17.1	3.5	12.6	-10.1	15.5	19.8
Changes in Stocks	3.2	4.4	5.0	1.7	2.0	1.7	..	..	..	..	..
Gross Domestic Saving	20.8	23.7	25.0	16.4	17.9	17.4	5.3	8.1	-5.9	15.7	1.4
Net Factor Income	-0.5	-0.1	-0.1	-0.7	-0.4	-0.8	..	..	..	..	..
Net Current Transfers	0.0	0.9	0.8	1.1	1.3	1.1	..	..	..	..	..
Gross National Saving	20.3	24.4	25.7	16.8	18.8	17.7	6.1	7.9	-6.0	19.0	-1.9
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	294	455	690	708	753	799	5.4	6.3	0.0	6.3	6.1
Capacity to Import	62	100	119	163	215	244	4.2	4.4	7.4	31.6	13.4
Terms of Trade Adjustment	0	21	-5	0	26	32	..	..	..	..	..
Gross Domestic Income	294	475	684	708	779	831	5.8	5.6	0.5	10.0	6.7
Gross National Product	292	454	689	703	751	793	5.5	6.3	0.0	6.7	5.6
Gross National Income	292	474	684	703	776	825	5.9	5.6	0.4	10.4	6.3

			(1987 = 100)				Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	37.7	95.6	96.3	100.0	108.8	120.3	9.1	12.4	15.9	8.8	10.6
Wholesale Prices (IFS 63)	32.0	93.1	91.7	100.0	113.4	125.5	9.7	13.2	18.9	13.4	10.7
Implicit GDP Deflator	38.4	92.1	93.0	100.0	109.6	120.5	8.8	11.7	15.7	9.6	10.0
Implicit Expenditures Defl.	39.0	93.0	92.9	100.0	106.1	115.6	8.4	12.5	15.1	6.1	8.9

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	3.2	2.7	2.4	
Labor Force	..	..	..	
Gross Natl. Income p.c.	2.6	2.8	-2.0	
Private Consumption p.c.	2.4	2.1	0.0	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	0.6	1.3	19.6	
Marginal Savings Rates:				
Gross National Saving	30.8	28.9	-31.2	
Gross Domestic Saving	28.2	28.1	-32.4	
ICOR (period averages):	..	4.2	21.1	
Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	58.0	53.8	51.8	..
Industry	15.8	16.3	15.7	..
Services	26.2	29.9	32.6	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.SUGAR	1064.9	350.8	136.4	100.0	86.2	126.5	624	169	87	60	60	89
X.FOOD.COCONUT	89.0	63.1	121.2	100.0	76.7	73.8	567	347	333	381	408	377
X.MET.CU	315.1	95.1	99.4	100.0	122.9	116.4	545	85	90	109	216	237
X.TIM	223.5	147.6	120.7	100.0	89.6	63.2	273	130	130	155	157	136
Manufactures	75.1	93.7	88.4	100.0	117.0	..	2,042	2,765	2,969	3,642	4,338	5,192
Residual	..	..	..	..	..	..	1,737	1,134	1,234	1,373	1,895	1,790
Total Exports FOB	98.3	94.0	101.3	100.0	108.7	120.1	5,788	4,629	4,842	5,720	7,074	7,821
F. Merchandise Imports												
Food	91.6	90.2	81.3	100.0	127.3	..	512	439	413	463	702	909
Fuel and energy	113.1	82.7	98.9	100.0	123.0	145.3	2,248	1,452	869	1,249	1,096	1,397
Other Consumer Goods	63.7	75.6	99.2	100.0	125.1	..	317	282	343	456	704	779
Other Intermed. Goods	110.7	68.2	76.5	100.0	108.1	..	2,665	2,150	2,555	3,359	4,020	4,910
Capital goods	..	..	..	..	..	..	1,986	788	864	1,210	1,637	2,424
Total Imports CIF	113.3	81.6	86.6	100.0	118.4	144.2	7,727	5,111	5,044	6,737	8,159	10,419

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	103.0	86.1	83.6	100.0	113.8	113.8
Merch. Imports Price Index	101.2	93.0	86.5	100.0	102.3	107.3
Merch. Terms of Trade	101.7	92.6	96.6	100.0	111.2	106.1

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	7,236	6,864	7,702	8,065	9,494	10,829
Merchandise (FOB)	5,788	4,629	4,842	5,720	7,074	7,821
Non-Factor Services	1,448	2,235	2,860	2,345	2,420	3,008
Imports of Goods & NFS	9,147	5,944	5,868	7,861	9,451	11,983
Merchandise (FOB)	7,727	5,111	5,044	6,737	8,159	10,419
Non-Factor Services	1,420	833	824	1,124	1,292	1,564
Resource Balance	-1,911	920	1,834	204	43	-1,154
Net Factor Income	-439	-1,317	-1,321	-1,221	-1,221	-1,141
(interest per DRS)	574	937	1,138	1,434	1,638	1,910
Net Current Transfers	299	172	235	376	501	473
(workers' remittances)	205	111	163	211	388	360
Curr. A/C Bal. before Off. Transf.	-2,051	-225	748	-641	-677	-1,822
Net Official Transfers	148	207	206	197	288	357
Curr. A/C Bal. after Off. Transf.	-1,903	-18	954	-444	-389	-1,465
Long-Term Capital Inflow	877	3,094	1,249	457	683	998
Direct Investment	-106	12	127	307	936	854
Net LT Loans (DRS data)	1,318	1,014	402	-68	52	720
Other LT Inflow (Net)	-335	2,068	720	218	-305	-576
Total Other Items (net)	1,982	-3,224	-1,072	-281	346	606
Net Short Term Capital	1,857	-3,867	-1,104	-139	175	221
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	124	643	32	-142	170	385
Changes in Net Reserves	-956	148	-1,131	268	-640	-139
Net Credit from the IMF	185	279	137	21	-128	126
Other Reserves Changes	-1,141	-131	-1,268	247	-511	-265
As Share of GDP:						
Resource Balance	-5.4	2.8	6.0	0.6	0.1	-2.6
Interest Payments	1.6	2.8	3.7	4.2	4.2	4.3
Current Account Balance	-5.8	-0.7	2.4	-1.9	-1.7	-4.1
Memorandum Items:						
Reserves excl. Gold (mil. US$)	2,846	615	1,728	968	1,003	1,417
Reserves incl. Gold (mil. US$)	3,978	1,098	2,611	2,312	2,169	2,350
Official X-Rate (LCUs/US$)	7.51	18.61	20.39	20.57	21.09	21.74
Index Real Eff. X-R Base 1980	100.00	97.64	76.19	70.12	68.20	72.10
GDP (millions of current US$)	35,240	32,928	30,763	34,440	39,142	44,310

Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts (Revenue)	13.1	11.3	12.7	14.4	13.6	..	13.4	14.9	30.2	9.4	..
Current Expenditures	9.2	9.0	10.5	13.3	13.7	..	15.0	18.8	48.7	18.9	..
Current Budget Balance	3.8	2.2	2.2	1.1	-0.1	..	8.2	-1.5	-37.4	-109.1	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	3.2	1.4	2.1	2.2	2.2	..	3.9	46.6	20.9	14.7	..
EQTY Contribution, Net Lending	2.0	2.6	5.1	1.7	0.6	..	..	98.1	-62.1	-38.0	..
Overall Deficit	-1.3	-1.8	-5.0	-2.8	-2.9	..	31.0	179.5	-46.6	38.9	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	0.9	-0.1	0.6	1.0	0.5	..	-4.8	-1000.0	88.9	-38.2	..
Domestic Financing (net)	0.4	1.9	4.4	1.4	2.3	..	63.0	140.9	-64.3	91.9	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	1,166	880	487	-40	152	837	6,368	13,783	19,284	23,484	23,475	24,462
Official Creditors	366	354	204	747	840	1,248	2,628	6,749	8,154	10,303	10,956	11,822
Multilateral	276	249	132	135	81	401	1,310	3,479	4,188	5,009	4,775	5,178
of which IBRD	195	153	20	43	-24	195	926	2,421	3,017	3,747	3,408	3,492
of which IDA	2	13	8	7	3	1	34	84	92	99	102	102
Bilateral	91	105	72	611	759	847	1,319	3,270	3,966	5,294	6,181	6,644
Private Creditors	799	526	283	-786	-688	-411	3,740	7,034	11,131	13,182	12,518	12,640
Suppliers	14	165	6	-13	103	80	343	627	699	642	873	674
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	152	134	-85	-28	-100	-118	2,454	2,600	2,294	1,516	992	874
Total LT	1,318	1,014	402	-68	52	719	8,822	16,383	21,578	25,000	24,467	25,336
IMF Credit	301	132	-34	-193	-102	106	1,044	1,168	1,266	1,260	1,093	1,177
Net Short-Term Capital	1,857	-3,867	-1,104	-139	175	221	7,556	9,092	5,486	3,792	3,888	3,910
Total incl. IMF & Net ST	3,476	-2,720	-736	-400	125	1,046	17,422	26,643	28,330	30,052	29,448	30,423

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	10.50	14.77	13.98	14.99	13.93	13.78
2. IDA as % of Total	0.38	0.51	0.43	0.40	0.42	0.40
3. IBRD+IDA as % of Total	10.88	15.29	14.41	15.38	14.34	14.19
Share of LT Debt Service						
1. IBRD as % of Total	9.55	18.26	18.07	17.28	19.33	17.69
2. IDA as % of Total	0.02	0.06	0.04	0.03	0.04	0.05
3. IBRD+IDA as % of Total	9.57	18.32	18.12	17.31	19.38	17.75
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	107.55	204.07	245.32	266.38	221.38	198.45
2. IMF Credit/Exports	12.73	14.55	14.39	13.42	9.89	9.22
3. Short-Term Debt/Exports	92.11	113.25	62.37	40.40	35.18	30.63
4. LT+IMF+ST DOD/Exports	212.39	331.88	322.08	320.21	266.45	238.29
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	25.03	49.75	70.14	72.59	62.51	57.18
2. IMF Credit/GDP	2.96	3.55	4.12	3.66	2.79	2.66
3. Short-Term Debt/GDP	21.44	27.61	17.83	11.01	9.93	8.82
4. LT+IMF+ST DOD/GDP	49.44	80.91	92.09	87.26	75.23	68.66
Debt Service /Exports						
1. Public & Guaranteed LT	7.13	15.86	21.97	27.89	24.75	22.15
2. Private Non-guaranteed LT	6.39	3.61	3.58	2.56	2.02	1.57
3. Total Long-Term Debt Service	13.52	19.46	25.55	30.46	26.76	23.72
4. IMF Repurchases+Serv. Chgs.	2.28	3.22	4.33	4.65	2.44	2.44
5. Interest only on ST Debt	10.67	9.34	4.55	3.89	3.09	3.09
6. Total (LT+IMF+ST Int.)	26.47	32.47	34.43	39.00	32.29	29.25

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Poland

After years of growing dissatisfaction with the economic and political systems, the government organized a series of "Round-Table" discussions with Solidarity in April 1989. The main result was an agreement to hold elections under a formula which allocated seats among government parties and the opposition in a lower house (the Sejm) and allowed free elections for an upper house (the Senate). Elections were held in June 1989. Solidarity won overwhelmingly, and President Jaruszelski proposed a Solidarity-led coalition government which was approved by the Sejm and installed in September. Fully free local elections took place in May 1990 and national elections in 1992.

The new government is strongly committed to the rapid creation of a market economy. Widespread support now exists for the government's program of thorough systemic and macroeconomic management changes initiated at the beginning of 1990, in the expectation that the problems brought by the previous economic regime, i.e., increasing shortages, inflation, and a rigid economic system which severely constrained adjustment, would soon be overcome.

Structure of the Economy

Poland has a per capita GNP of about $1,850 (based on *World Bank Atlas* methodology, 1988) and a population of over 37 million, which is growing at a rate of about 0.8 percent per year. Poland's economy is diversified. The economic system established at the end of the 1940s was a traditional model of centrally planned socialism, although modifications were introduced in subsequent years. The socialized sectors—state enterprises and cooperatives—account for about 70 percent of GDP. The private sector comprises mainly agriculture (which accounts for about 75 percent of all agricultural land and output) and small industrial and construction firms, as well as small service enterprises (shops, restaurants). There have been a number of attempts to reform the economic system. The government of Prime Minister Mazowiecki has embarked on a major new initiative which radically departs in scope and design from previous reform efforts.

Industry. This sector, which includes energy and manufacturing, employs about 29 percent of the labor force and produces more than 50 percent of GDP. Industrial production is heavily concentrated, with enterprises employing over 1,000 workers accounting for over two-thirds of industrial employment and output. Only about 12 percent of total sales of the industrial sector are exported. The structure of manufacturing is strongly biased toward heavy industry; engineering accounts for a third of industrial employment and a quarter of industrial output. Poland is the world's fourth largest producer of hard coal, but is no longer a net energy exporter. Until recently, it has been investing heavily in energy production to maintain output at present levels.

The outmoded productive base needs to be restructured. The low levels of material and labor efficiency in manufacturing are of particular concern. The previous system of price controls, trade barriers, and other distortions in effect until the end of 1989 made difficult an evaluation of competitiveness, but there are indications that more than half of industrial output is not competitive on the basis of world market prices, even after the marked real devaluations in recent years. These industries (which include heavy industry—particularly steel) are in serious need of restructuring.

When compared to international standards, Poland's use of energy is inefficient. As a result of subsidies and inadequate pricing, domestic energy consumption per unit of output is high, thus increasing production costs particularly in industry, absorbing growing proportions of production, and limiting the amounts of hard coal for export (which currently accounts for about 16-18 percent of Poland's convertible currency exports). There is only limited room to increase productivity in existing hard coal mines, and new mines coming on stream will just compensate for old capacity being depleted. An intensified energy conservation program is essential both to lower production costs in domestic industries and to free hard coal for export.

Agriculture. Unlike in other Eastern European countries, the private sector predominates and has been officially sanctioned in the constitution. Agriculture accounts for about 13 percent of GDP, employs about 28 percent of the labor force, and (mainly agro-processing) provides about 12 percent of total export earnings, and the sector's external trade is nearly in balance. Agricultural productivity—in terms of both labor productivity as a result of excess labor in agriculture and per-hectare yields as a result of low levels of modern inputs in private agriculture—is relatively low and stagnant, with Poland falling progressively further behind, even with respect to its Eastern European neighbors. The climate, while not ideal, is not a severely limiting constraint. Poland is acknowledged to have a strong agricultural science base, but systemic and institutional difficulties (extension, credit, inputs supply, marketing, pricing) have impeded the large private sector from benefiting from these advantages. Agro-processing is a severe bottleneck, with low levels of efficiency and poor quality performance.

Financial Sector.

Poland also still lacks a good financial intermediation system, which is an important factor in mobilizing resources and promoting sound investment and financial discipline at the enterprise level. Financing decisions have tended to be made in conjunction with other centralized decisions, and enterprise investments and operations were insulated from the consequences of their mistakes and achievements, through major transfers from/to the state budget, price controls, and the monopolistic structure of production. Until recently lending and deposit rates remained substantially negative in real terms for years. Reforms of the financial system were initiated in recent years and intensified in 1989, with the strengthening of the National Bank of Poland (NBP) as a truly central bank and the introduction of two-tier banking by spinning off NBP's commercial functions to nine independent commercial banks. Nonetheless, the financial system remains at an early stage of development.

Environment Considerations.

Poland's environment has deteriorated rapidly. Out-of-date technology, especially in the mining, chemicals, petrochemical, and fertilizer subsectors, releases air and liquid pollutants at levels well beyond those typically accepted in industrialized countries; solid waste disposal is also a problem. Air, water, and soil pollution threaten crop production, health, water supplies, buildings, and forests. Sulphur dioxide generated by burning low-quality coal and lignite is the single worst pollutant.

The productive structure of the economy is a legacy of the past, generated to a large extent in the 1970s when large amounts of convertible currency resources were borrowed to finance a high rate of investment. Artificially low interest rates and poor planning resulted in numerous inefficient undertakings that survived because they were protected from domestic and foreign competition. There was too much scope for inefficient construction, and completed projects typically had very low rates of return, while high investment rates absorbed vast resources.

External Imbalances

The investment drive of the 1970s left Poland with a large external debt. Of the $41 billion of external debt at end 1989, approximately $28 billion is owed to official bilateral creditors (Paris Club), $9 billion to Western commercial banks (London Club), and about $4 billion to others. Even after a series of debt reschedulings, Poland has not been able to make full payments of the amounts owed, and arrears built up to the Paris Club and London Club creditors during 1989.

Poland has started taking steps to regularize these relations. A new Paris Club rescheduling agreement was reached in February 1990, which reschedules arrears as of the end of 1989 and principal and interest maturities (including previously rescheduled debt) falling due between January 1, 1990, and March 31, 1991, over 14 years including 8 years of grace. Seventy percent of moratorium interest on the rescheduled debt falling due during the consolidation period is capitalized, with repayment over 11 years including 3 years of grace, while 30 percent will have to be paid during the first quarter of 1991. Regarding the London Club, an agreement had been reached for a multi-year rescheduling covering 1988-93. Although this agreement called for Poland to continue to pay full interest, this issue was reopened, and—since October 1989—Poland has made only a small share of interest payment due. Poland is now in contact with the banks to discuss a more comprehensive solution, compatible with the latest Paris Club agreement.

About 55 percent of Poland's trade is in convertible currencies, and most of the remainder is with countries belonging to the Council for Mutual Economic Assistance (CMEA) in nonconvertible, transferable rubles. (A small amount is in bilateral clearing arrangements not in the CMEA regime.) Through CMEA trade, Poland receives key raw materials such as petroleum (for which it would otherwise have to spend hard currency), while it exports primarily consumer and industrial goods of a quality not readily sold on western markets. After running a substantial trade and current account deficit in the CMEA area during most of the 1980s, Poland is now beginning to run small and increasing surpluses.

The crisis of the early 1980s caused sharp declines in incomes, consumption, and exports. The burden of external adjustment fell mainly on imports which were compressed severely, and have been kept at levels sufficient to generate a trade surplus of about $1 billion per year since 1984. The economy has been slow to recover; despite annual growth rates of 3-4 percent on average, total output and consumption per capita are only now reaching the levels of the late 1970s. Total investment rates have returned to their rather high past levels (over 25 percent of GDP), but efficiency has not improved materially as the domestic economy continued to be shielded from foreign competition, and haphazard direct interventions also continued to prevail.

Economic Performance during 1988-89

While output and exports have continued their upward trends since 1983, 1988 and 1989 were difficult years. Economic activity in 1988 continued the trend of improvement in production, with GDP increasing by about 4.5 percent, the fifth year in this recovery. Despite good overall performance in the real economy, many sectors showed serious signs of overheating as increases in nominal wages far exceeded increases in output. Fixed investment by enterprises increased by 10-12 percent in real terms, and real per-capita consumption rose by 3-4 percent. Resulting excess demand exacerbated market imbalances and widespread shortages occurred. Inflation accelerated to 70 percent, and real incomes (CPI adjusted) increased by 11 percent, and real wages, by 8 percent. In 1989, inflation reached 252 percent for the year (as compared to the average of 1988), while prices at the end of the year were about 7 times higher than they had been in December, 1988. Nominal wages increased 4-fold from January 1989 to September 1989, and about 9-fold during the whole year, although there was some decline in real wages from October to December. As a result of these and other disruptions in the economy, output began to decrease during the last months of 1989, and declined by 1 percent for the year as a whole.

The process of high inflation began with a price/income maneuver in early 1988 designed to change relative prices of energy and adjust prices substantially in other sectors. The ensuing instability—caused by large price increases and lax financial discipline (wage increases by enterprises, credit expansion, and subsidies)—led to changes of expectations and accelerating inflation. Further contributing to inflation were the monetization of increasing budget deficits (in excess of 2 percent of GDP in 1988 and over 10 percent during the first nine months of 1989, with the deficit for the year as a whole at about 8 percent as a result of expenditure cuts) and highly negative real interest rates.

Convertible currency trade performance, which had been good in 1987 and for most of 1988 (with exports increasing in real terms by about 10 percent), weakened during 1989. The pace of export growth slowed significantly in the last quarter of 1988 and in 1989, whereas imports have accelerated. The trade surplus decreased from $950 million in 1988 to only $240 million in 1989. The improved trade and foreign exchange regimes reduced the anti-export bias of the system, but this was undermined by lax exchange rate management in the second half of 1988, which caused a 22 percent real appreciation of the zloty, while an appreciation of the exchange rate during mid-1989 was partially offset during the last months of 1989 by a rapid devaluation beginning in September. The deficit on the convertible currency current account increased to over $580 million in 1988 and, for 1989, a deficit of $1.8 billion (about 2 1/2 percent of GDP) was recorded, compared to only $417 million in 1987. Official reserves, however, increased by $560 million in 1988 (to reach a level equal to 4 months imports), and were roughly unchanged in 1989. The financing of the current account deficit was essentially in the form of unpaid interest on external debt; this reached $2.1 billion in 1988 and $2.4 billion in 1989.

The Economic Transformation Program

The government of Prime Minister Mazowiecki assumed office in September 1989 and began to tighten macroeconomic management during the remainder of 1989, while at the same time preparing a more comprehensive and ambitious Economic Transformation Program (ETP). The ETP was launched at the beginning of 1990. While the main focus initially was on stabilizing the economy, a number of important complementary measures of a longer-term structural nature have also been adopted from the beginning.

The ETP is virtually without precedent in its scope and depth. It represents a radical departure from the past and earlier gradualistic reform attempts. The ETP is pursuing wide-ranging goals and objectives. Ultimately, the government strives to improve living conditions to levels similar to those in Western Europe by transforming the economy into a market economy, with restored growth, equitable sharing of benefits, and environmental compatibility.

The program's immediate aim is to stabilize the economy and to create effective markets to replace central government commands and political party connections by which resources were allocated previously. The main components of this transformation are: price liberalization and a competitive trade regime to signal scarcity values; a fiscal system which allows these scarcity values to appear on the market without significant distortions; an enterprise system, with increasing private ownership, in which owners and managers are guided by market-based incentives to use resources efficiently to meet market demands; a labor market including an unemployment insurance scheme to permit workers to seek attractive jobs; and a financial system to marshall savings and facilitate the flow of capital to the most productive uses. All these program elements are geared to stimulate supply response throughout the economy.

As the economic situation with hyperinflation and severe external payments problems became untenable in the second half of 1989, a sharp break with the past was required. A comprehensive macroeconomic program to address the country's severe problems was formulated by the government at the end of 1989 and implemented at the beginning of 1990. This program has a heavy emphasis on stabilization but also introduces significant structural and systemic changes. It comprises a virtually balanced budget; credit controls; positive real interest rates; price decontrol; a changed foreign trade and exchange regime with a fixed exchange rate after significant devaluation; and a substantial reduction in real wages (to be enforced through a tax-based income policy).

The fiscal budget for 1990 allows for a deficit equivalent to slightly less than 1 percent of GDP as compared to about 8 percent in 1989. Monthly budgets will be prepared to ensure that even with high inflation at the beginning of the year (and the consequent difficulty of programming expenditures and revenues over the year) targets will be met.

Nominal interest rates (as measured by NBP's refinancing rate) were raised sharply from 100 percent per year to a monthly rate of 36 percent for January, and then set at monthly rates of 20 percent for February, 10 percent for March, 8 percent for April, and 5.5 percent for May, in line with declining inflation. Subsequent monthly rates are to be determined on the basis of a number of criteria but with a strong concern for achieving positive real interest rates and making zloty savings instruments more desirable than previously, and thus helping to stabilize the exchange rate. Money creation is limited by credit ceilings as well as a prohibition against monetary expansion to finance any fiscal deficit.

Price controls, previously imposed on goods and services comprising 80 percent of GDP for the first half of 1989 and 50 percent for the second half of 1989, have been lifted on all goods and services, except for items accounting for about 10 percent of GDP; public transportation, energy, and a few other items are still controlled and subsidized. This is a forceful step toward creation of a market economy.

The foreign exchange regime was fundamentally changed to support the stabilization program. All current account transactions have been liberalized, except for restrictions on the transfers of dividends from foreign investment in domestic market activities (being progressively phased out over a period of time) and travel abroad. All export proceeds must be surrendered but purchases of foreign exchange are freely allowed for current account transactions. Moreover, a fixed exchange rate at a substantially depreciated level (9,500 zlotys per dollar versus an official rate of 6,500 zlotys per dollar at end December and an average official rate of about 1,400 zlotys per dollar for all of 1989) was established as an important anchor for the stabilization program. A parallel foreign exchange market will continue to exist for private, non-current account transactions. This market will also be an important factor in determining the adequacy of the official exchange rate. Deviations greater than 10 percent between the official and parallel markets would trigger adjustments of domestic interest rates or other measures.

The process of systemic transformation is complicated and time consuming: numerous and far-reaching changes in the legal system are required to lay the ground for the new system; substantive changes in a number of sectors must be coordinated to minimize frictional costs; monopolies need to be dismantled and conditions created for small competitive businesses to operate; and the political process must be fostered to secure majority support. The role of the state is changing from commands and direct, discrete interventions to generally applicable regulations and the rule of law. Another aspect of market development is the required change in attitudes. Ordinary citizens are surprised when prices differ from one store to the next; learning to shop is an important aspect of market development. Management skills need to be developed at all levels of the economy; while many managers have managed materials ably despite shortages, many need improved skills to control costs and returns and use factors of production efficiently within the context of changing patterns of demand.

External Debt

At the end of 1989, Poland's external debt in convertible currency amounted to $40.6 billion (equivalent to about 80 percent of GDP and 475 percent of convertible currency exports of goods and services) including arrears. Scheduled debt service payments in 1989 amounted to $5.2 billion (equivalent to 60 percent of exports of goods and services in convertible currency), of which only a portion was actually paid. The recent Paris Club rescheduling drastically reduced Poland's debt service obligations during 1990 to $2.0 billion. However, it does not reduce Poland's debt burden over the medium and long run; obligations are basically stretched out into the future and interest capitalization actually increases the overall amount of debt. A short-term solution is also likely with London Club creditors, which in terms of cash-flow relief can be expected to be similar to the conditions granted by the Paris Club.

While the policy framework significantly changed at the beginning of 1990 with the implementation of the stabilization program and support of international and bilateral creditors, the medium to longer-term debt picture in strict quantitative terms has hardly changed. Through early 1991, actual debt service payments will be sharply reduced but continued further debt relief will depend on new agreements in the future. A longer-term solution including debt and debt service reduction or equivalent support is urgently needed to bring about a lasting improvement in debt indicators and thus prepare the ground for new capital flows. The definition of a medium-term external financing strategy to address this problem is part of the government's Economic Transformation Program (ETP).

Prospects

The massive changes in the economic system planned for 1990 make difficult any precise projections. Output is dropping as resources flow to new activities in response to sharp changes in relative prices; current estimates point to a decrease on the order of 10-15 percent of GDP over 1989, which had already seen a decline of some 1-2 percent. Unemployment on a relatively large scale will be faced, and social safety nets are being developed. External funding of a significant portion of the large adjustment costs is essential if Poland is to avoid sustained hardships which would severely threaten the reform.

Despite these short-term considerations, the fundamentals indicate a good chance for a successful reform in a reasonable period of time. Poland's well-educated labor force, its natural resources (especially coal and gas), its location in central Europe in close proximity to major markets, and the widespread support for dramatic changes all auger well for the medium term. With appropriate debt relief and debt reduction, Poland is expected to achieve a balanced current account in the next few years and regain external financing options that are a precondition to sustained and efficient longer-term development.

POLAND

Mid-1988 Population (mils.)	37.9
1988 Per Capita GNP in US$:	1,850

	A. Shares of Gross Domestic Product						B. Growth Rates (% per annum) *(from constant price data)*					
	1975	*1980*	*1986*	*1987*	*1988*	*1989p*	*1965-73*	*1973-80*	*1980-84*	*1987*	*1988*	*1989p*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	-1.1	2.0	4.1	0.5
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	..	..
Agriculture	15.0	16.0	15.4	13.2	14.2	..	..	..	..	-7.8	1.3	..
Industry	69.6	62.0	60.2	61.5	60.9	..	..	..	..	3.0	5.1	..
(of which Manufacturing)	..	..	..	..	..	..	..	..	..	..	..	..
Services	15.5	22.0	24.4	25.3	24.9	..	..	..	..	..	..	..
Resource Balance	..	-3.0	1.4	2.4	2.8	..	..	..	..	..	..	..
Exports of GNFS	..	28.1	18.2	21.4	22.8	..	..	..	1.5	5.0	9.4	2.8
Imports of GNFS	..	31.1	16.8	19.0	20.0	..	..	..	-5.3	4.6	9.8	0.2
Total Domestic Expenditures	..	102.4	98.6	97.2	97.3	98.6	..	..	-2.2	1.7	4.1	0.8
Total Consumption	..	76.1	69.7	68.3	64.7	67.9	..	..	-0.7	2.3	2.5	-0.7
Private Consumption	..	66.9	60.6	59.9	56.5	54.9	..	..	-1.9	2.5	2.9	1.2
General Government	..	9.2	9.1	8.4	8.2	13.1	..	..	2.0	1.0	0.0	-10.3
Gross Domestic Investment	..	26.3	28.9	28.9	32.6	30.7	..	..	-4.2	2.9	9.5	3.3
Fixed Investment	..	24.7	21.9	22.6	22.5	20.1	..	..	-4.4	4.1	6.1	-2.0
Changes in Stocks	..	1.6	7.0	6.3	10.1	10.6	..	..	..	-0.8	20.7	15.0
Gross Domestic Saving	..	23.4	30.3	31.7	35.3	32.1	..	..	..	..	..	..
Net Factor Income (accrual basis)	..	..	-3.5	-4.5	..	..	..	..	..	..	..	..
Net Current Transfers	..	..	1.3	2.3	..	..	..	..	..	..	..	..
Gross National Saving	..	..	28.1	29.5	..	..	..	..	..	..	..	..

In billions of Zlotys (at constant 1982 prices)	*1973*	*1980*	*1986*	*1987*	*1988*	*1989p*						
Gross Domestic Product	..	6,268	6,471	6,601	6,871	6,906	..	..	..	..	..	..
Capacity to Import	..	1,253	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	12	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	6,280	..	..	..	..	..	..	..	..	..	..
Gross National Product	..	..	..	..	..	..	..	..	..	..	..	..
Gross National Income	..	..	..	..	..	..	..	..	..	..	..	..

			(1980 = 100)						*Inflation Rates (% p.a.)*			
C. Price Indices	*1984*	*1985*	*1986*	*1987*	*1988*	*1989p*	*1973-80*	*1980-87*	*1985*	*1987*	*1988*	*1989p*
Consumer Prices (IFS 64)	352.2	403.5	474.9	594.8	951.5	3277.6	..	26.0	16.1	25.2	60.0	244.5
Wholesale Prices (IFS 63)	320.5	372.4	372.4	471.7	753.7	2357.1	..	24.5	16.2	26.7	59.8	212.8
Implicit GDP Deflator	357.2	415.7	491.4	618.7	996.7	..	..	29.7	16.4	28.7	61.1	..
Implicit Expenditures Deflator	360.4	..	..	..	..	..	..	37.8	..	..	..	..

D. Other Indicators:

Growth Rates (% p.a.):	*1965-73*	*1973-80*	*1985-87*	*1988.0*	*1989p*
Population	..	0.91	0.60	0.03	0.03
Labor Force	..	..	-0.20	-1.00	..
Gross Nat'l. Income p.c.	..	..	3.70	4.10	..
Private Consumption p.c.	..	..	3.10	1.70	..
Import Elasticity:					
Imports (G+NFS) / GDP(mp)	..	..	1.50	..	..
Marginal Savings Rates:					
Gross National Saving	..	..	..	..	..
Gross Domestic Saving	..	..	..	..	..
ICOR (period average): a/	..	..	4.60	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1987*	*1988*	*1989p*
Agriculture	..	..	29.7	28.2	27.6	..
Industry	..	..	38.0	34.9	34.8	..
Services	..	..	32.3	36.9	37.6	..
Total	..	..	100.0	100.0	100.0	..

Notes:
Unallocated items added to private consumption.
GDP by source data from Net Material Product data.
Data for 1975 used instead of 1973.
Industry includes construction.
Labor force refers to total employment.

E. Merchandise Exports	*Volume Index (1980=100)* 1984	1985	1986	1987	1988	1989p	*Value at Current Prices (million US$)* 1980	1984	1985	1986	1987	1988
Fuel & Elec Energy							2,410	2,060	1,801	1,594		
Raw Materials							856	767	822	789		
Capital Goods							4,715	4,542	4,530	4,693		
Manuf Consumer Goods							5,068	3,427	3,372	3,927		
Foods, Raw & Processed							1,142	954	964	1,066		
Total - Exports	106.3	107.7	113.0	118.4	129.5	128.3	14,191	11,750	11,489	12,069	11,602	13,211
F. Merchandise Imports												
Fuel & Elec Energy							3,113	2,479	2,417	2,330		
Raw Materials							1,742	1,175	1,149	925		
Other Consumer Goods							4,227	2,974	3,336	3,650		
Other Intermed. Goods							4,627	3,069	3,096	3,366		
Foods, Raw & Processed							2,981	1,288	1,186	1,265		
Total - Imports	81.9	88.4	92.7	96.9	105.3	104.5	16,690	10,985	11,185	11,536	10,803	12,064

Notes: Data above and in the first eight columns combine convertible and nonconvertible currencies.

Trade data do not match BOP trade information due timing and valuation differences.

G. Terms of Trade (1980=100)	1984	1985	1986	1987	1988	1989p
Merch. Exports Price Index	198.5	248.1	296.0	432.2	731.9	2357.0
Merch. Imports Price Index	212.4	259.2	303.5	427.3	689.8	1864.3
Merchandise Terms of Trade	93.5	95.7	97.5	101.1	106.1	126.4

H. Balance of Payments 1/	*US$ millions (at current prices):* 1980	1984	1985	1986	1987	1988	Convertible Currency Balance of Payments US$ millions (at current prices) 1984	1985	1986	1987	1988	1989p
Exports of Goods & NFS	15,655	12,835	11,976	12,730	12,864	14,576	5,857	5,677	5,912	6,880	7,974	..
Merchandise (FOB)	14,170	11,800	10,882	11,558	11,602	13,211	5,324	5,120	5,316	6,163	7,248	8,533
Non-Factor Services	1,485	1,035	1,094	1,172	1,262	1,365	533	557	596	717	726	..
Imports of Goods & NFS	17,254	11,943	11,366	11,961	11,940	13,357	4,544	4,615	4,964	5,891	7,132	..
Merchandise (FOB)	15,806	10,962	10,436	10,914	10,803	12,064	3,944	4,032	4,281	5,123	6,307	7,878
Non-Factor Services	1,448	981	930	1,047	1,137	1,293	600	583	683	768	825	..
Resource Balance	-1,599	892	610	769	924	1,219	1,313	1,062	948	989	842	..
Net Factor Income	-2,357	-2,638	-2,554	-2,663	-2,915	-2,955	-2,549	-2,444	-2,557	-2,815	-2,855	-3,087
(interest payment due)	2,496	2,833	2,730	2,851	3,132	3,226	2,729	2,609	2,734	3,012	3,092	3,469
Net Current Transfers	656	467	768	946	1,413	1,434	462	764	944	1,409	1,433	1,232
(private transfers)	523	462	764	944	1,409	1,434	462	764	944	1,409	1,433	1,232
Current Account Balance	-3,300	-1,279	-1,176	-948	-578	-302	-774	-618	-665	-417	-580	-1,842
M & LT Capital Inflow	2,659	-2,651	-2,070	-3,218	-3,125	-3,817	-2,584	-2,142	-3,394	-3,202	-3,541	..
Actual Loan Drawings	8,840	627	723	1,112	659	341	218	261	294	317	259	226
Repayments	5,971	3,136	2,816	4,103	3,552	4,036	2,719	2,417	3,472	3,241	3,694	3,096
Due & Paid	5,971	781	1,164	1,346	957	978	364	765	715	646	636	497
Due & Unpaid	..	2,355	1,652	2,757	2,595	3,058	2,355	1,652	2,757	2,595	3,058	2,599
Rescheduled	..	740	1,576	1,457	2,283	2,943	740	1,576	1,457	2,283	2,943	1,452
Not Rescheduled	..	1,615	76	1,300	312	115	1,615	76	1,300	312	115	1,147
Other M & LT Capital	-210	-142	23	-227	-232	-122	-83	14	-216	-278	-124	..
S-T Capital & Errors	239	431	568	-260	79	-331	-141	82	-367	-5	-312	-213
Change in Reserves	402	-340	236	173	-797	-561	-340	236	173	-797	-561	-45
Rescheduled Obligations	..	2,427	13,337	1,688	7,484	4,700	2,427	13,337	1,688	7,484	4,700	..
Changes in Arrears	..	1,412	-10,895	2,565	-3,063	354	1,412	-10,895	2,565	-3,063	354	..
Interest	..	1,017	-3,263	1,483	-2,102	583	1,017	-3,263	1,483	-2,102	583	..
Principal	..	395	-7,632	1,082	-961	-229	395	-7,632	1,082	-961	-229	..
As shares of GDP:												
Resource Balance	-2.82	1.18	0.86	1.04	1.47	1.87	1.73	1.50	1.29	1.58	1.30	..
Interest Payments (accrual)	4.40	3.74	3.85	3.87	5.00	4.96	3.60	3.68	3.71	4.80	4.75	..
Current Account Balance	-5.82	-1.69	-1.66	-1.29	-0.92	-0.46	-1.02	-0.87	-0.90	-0.67	-0.89	..
Memorandum Items:												
Int'l. Reserves (mil. US$)	..	1,106	870	698	1,495	2,056						
Reserves incl. Gold (mil.US$)	..	1,252	1,024	883	1,684	2,245						
Official X-Rate (Zl/US$)	44.22	113.24	147.14	175.29	265.08	430.60						
Index Real Eff. X-R 1980=100 2/	100.0	147.3	130.4	103.3	72.7	67.8						
GDP (Millions of current US$)	56,712	75,732	70,986	73,740	62,700	65,100						

1/ Transactions within swing limits under bilateral payments together with related capital account transactions are included in nonconvertible BOP.

2/ Decline implies depreciation.

p = preliminary data. e = estimate.

I. Budget (State)	Shares of GDP (%) 1980	1984	1985	1986	1987	1988	Growth Rates (% p.a.) 1980-83	1986	1987	1988	1989p
Tax Receipts	39.0	36.5	37.0	37.5	31.5	33.4	37.0	25.6	9.8	85.5	
Other Receipts	9.4	3.2	3.4	2.4	4.9	2.2	-6.5	-12.2	165.2	-21.7	
Current Expenditures	45.3	36.7	35.9	35.2	32.2	30.5	29.4	21.3	19.5	65.8	
Current Budget Balance	3.0	3.0	4.5	4.8	4.3	5.1	..	..	..	..	
Capital Expenditures	4.2	5.3	5.7	5.9	5.6	5.3	54.0	28.5	24.9	67.6	
Overall Balance	-1.2	-2.2	-1.2	-1.1	-1.3	-0.2	..	..	..	..	
External Borrowing (net)			0.4	0.7	0.1	-0.3					
Domestic Non-Bank Financing			--	--	--	--					
Domestic Bank Financing			-0.5	-0.4	0.7						
Extrabudgetary Funds			1.2	0.8	0.5	0.6					

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ Millions) 1980	1984	1985	1986	1987	1988	Debt Outstanding & Disbursed (US$ Bln) 1980	1984	1985	1986	1987	1988
							Includes Interest Arrears & Non-Guaranteed Debt					
Public & Publicly Guar. LT	..	..	..	..	..	..	22.7	20.3	23.5	26.3	29.8	30.7
Official Creditors	..	..	..	..	..	..	..	..	..	..	..	..
Multilateral	..	..	..	..	..	..	..	..	..	..	..	..
of which IBRD	..	..	..	..	..	..	..	..	..	..	..	..
of which IDA	..	..	..	..	..	..	..	..	..	..	..	..
Bilateral	..	..	..	..	..	..	..	..	..	..	..	..
Private Creditors	..	..	..	..	..	..	..	..	..	..	..	..
Export credits (net)	..	-85.0	13.0	-211.0	-280.0	-106.0	..	..	..	..	..	..
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-Guaranteed LT	..	..	..	..	..	..	..	7.5	8.2	9.9	10.8	10.0
Total LT Disbursements	8669.0	218.0	261.0	294.0	317.0	259.0	..	..	..	..	..	..
IMF Net Credit	..	..	..	..	..	..	..	..	..	..	..	..
Net Short-Term Capital	144.0	588.0	637.0	248.0	175.0	..	2.8	1.9	1.4	1.5	1.5	1.4
Total incl. IMF & Net ST	..	..	..	..	..	..	25.5	29.7	33.1	37.7	42.1	42.1

Bank and IDA Ratios	1980	1984	1985	1986	1987	1988	Convertible Currency Debt Ratios 1980	1984	1985	1986	1987	1988
Share of Total Long-Term DOD												
1. IBRD as % of Total	..	..	..	..	..							
2. IDA as % of Total	..	..	..	..	..							
3. IBRD+IDA as % of Total	..	..	..	..	..							
Share of Total LT Debt Service												
1. IBRD as % of Total	..	..	..	..	..							
2. IDA as % of Total	..	..	..	..	..							
3. IBRD+IDA as % of Total	..	..	..	..	..							
DOD-to-Exports Ratios (%)												
1. Long-Term Debt/Exports	143.73	213.35	260.86	280.23	310.37		262.70	424.05	484.42	527.18	532.71	
2. IMF Credit/Exports	..	..	..	..	..		..	..	..	..	0.00	
3. Short-Term Debt/Exports	17.73	14.58	11.52	11.61	11.47		23.77	21.53	23.96	22.99	21.20	
4. LT+IMF+ST DOD/Exports	161.45	227.94	272.38	291.84	321.84		286.47	445.59	508.39	550.17	553.91	
DOD-to-GDP Ratios (%) Convertible Currency												
1. Long-Term Debt/GDP	40.03	36.71	44.66	49.09	64.75							
2. IMF Credit/GDP	..	..	..	..	..							
3. Short-Term Debt/GDP	4.94	2.51	1.97	2.03	2.39							
4. LT+IMF+ST DOD/GDP	44.96	39.22	46.63	51.13	67.15							
Debt Service Due Ratios (DS/Exp) in % in Convertible Currency												
1. Public & Guaranteed LT	..	..	..	..	..							
2. Private Non-guaranteed LT	..	..	..	..	..							
3. Total LT Debt Service	95.89	90.24	86.03	101.92	88.36							
4. IMF Repurchases+Serv.Chgs.	..	..	..	..	..							
5. Interest Only on ST Debt												
6. Total (LT+IMF+ST Int.)												

Notes: Data above and in first eight columns refer to com convertible and nonconvertible currencies.

Interest arrears are included in M & LT convertible currency debt.

Rwanda

Rwanda is a small, landlocked country whose population growth (3.5 percent per year) and density (250 inhabitants per square kilometer) rank among the highest in the world. The country has poor natural resources, including a shortage of arable land due to the mostly hilly terrain and costly-to-use swampy lands. Its level of social and economic development remains among the lowest in the world, despite important strides made since Independence in 1959: per capita income reached only US$310 in 1989, life expectancy is 47 years, and adult literacy is only 37 percent.

Rwanda has a narrow and fragile economic base. Exports are almost entirely agricultural, coffee alone providing three-quarters of the foreign exchange earnings. Manufacturing is limited by: (i) the small domestic market; (ii) difficult and costly access to external markets; and (iii) the shortage of local raw materials, skilled labor, as well as entrepreneurial and marketing capabilities.

Despite these constraints, Rwanda has made a creditable effort toward economic and social development. During the 1976-80 period, the country managed to satisfy its subsistence needs and to make important advances not only in agriculture but also in other fields such as education, health, water supply, and small-scale industry. It succeeded in building basic transport and communication infrastructure, and set in place a state administrative apparatus serious about development. At the same time, Rwanda has been able to attract substantial volumes of external aid from a great diversity of sources, confirming donor perceptions that government is development-oriented and by and large pursuing generally appropriate objectives.

These achievements notwithstanding, Rwanda's long-term development prospects depend on the country's ability to address some fundamental constraints. Most important among these are high population growth, undiversified and uncompetitive economy, deteriorating physical environment, and limited capacity to provide social services. The rapid growth of population has led to the conversion of virtually all agricultural land into crop production at the expense of fallow and grazing land. Extensive cultivation of fragile soils increasingly affects the ecological balance with potentially serious long-term environmental effects. The small modern sector offers little employment opportunities outside the rural sector, further increasing the demand for land.

Recent Economic Developments

Since 1980, Rwanda's economic growth slowed down and became more erratic. In contrast to an average GDP growth of 6.6 percent a year between 1973-80, the 1980-87 growth averaged only 2.6 percent, including a decline of 3.2 percent in 1988, mostly reflecting unfavorable weather conditions and a drastic decline in world market prices for coffee. In 1989, GDP declined further by about 3.2 percent, owing largely to adverse climatic conditions and restrictive import licensing.

Rwanda's external position came under strong pressure in the 1980s, as imports continued to expand at a time when export earnings were declining. In an attempt to arrest the deterioration of the balance of payments, the government adopted in 1983 restrictive measures (stricter import licensing, increased import tariffs) aimed primarily at curtailing imports of non-essential consumer goods as well as those of locally-produced commodities. The Rwandese authorities also shifted the peg of the Rwandese franc (in September 1983) from the U.S. dollar to the SDR, entailing a 5.2 percent depreciation vis-á-vis the U.S. dollar. These measures, coupled with some improvement in the terms of trade over 1984-86, helped to reduce the current account deficit from 13.6 percent of GDP during 1982 to about 10 percent in 1985-86. During 1987-89, the drastic fall in the world prices of Rwanda's export crops pushed back the current account deficit to over 11 percent of GDP. It should be noted that since 1980 the real effective exchange rate of Rwanda has appreciated by about 35 percent, mainly as a result of the depreciation of the U.S. dollar. This has resulted in a loss of competitiveness of Rwanda's exports. The government has this matter under study.

Rwanda's budgetary situation is precarious and deteriorating. Beginning in 1981, the sharp decline in taxes on coffee exports and the increase in current outlays led to a persistent budgetary deficit which hovered around 4 percent of GDP (on a cash basis) between 1982 and 1985, despite the government's attempt to control expenditure and increase revenues. Measures in this respect included: reducing the growth of public service employment; cutting transfers to parastatals; and increasing taxes on international trade. In 1987, the budgetary deficit rose to 7.5 percent of GDP, as export earnings fell further, and the government subsidized coffee producer prices in the face of declining world market prices and the appreciation of the Rwandese franc. Although, the overall fiscal deficit was reduced to 4.7 percent and 5.9 percent in 1988 and 1989, respectively, its financing required considerable recourse to domestic financing.

The Rwandese government has been traditionally conservative in its monetary and credit policies. Inflationary pressures have arisen mainly from supply shortages caused by frequent disruptions of supply routes through neighboring countries, high international transport costs, increased prices of imports, and seasonal fluctuations in the prices of domestic foodstuffs. Inflation, as measured by the consumer price index, averaged 10.6 percent per annum during 1977-82 but was reduced to 3.5 percent per annum in the 1983-86 period; it rose marginally (to 4.1 percent) in 1987, averaged 3 percent in 1988 and only 1 percent in 1989.

Development Strategy

Overall, the country's development strategy has been sound. It has put emphasis on (i) improving agricultural productivity in order to increase rural incomes; and (ii) promoting artisanal activities to absorb the rapidly growing labor force. The government established in 1981 the National Population Office in order to formulate a national population policy (announcing a desirable average family size, motivational campaigns on family planning, provision of family planning services in health centers, etc.) and monitor developments. In the agricultural sector, the government has undertaken a comprehensive evaluation of research efforts to date and has started to rationalize agricultural services. At the same time, the government drafted an Environmental Action Plan and is fully committed to taking the necessary actions in this area. The government is also committed to greater economic and political decentralization in favor of the communes to allow them to play a key role in mobilizing the rural population for development and in coordinating and channelling assistance from the central government.

The coffee crisis of 1987-89 and the projected world coffee prices have highlighted the need for adjustment measures in key areas, notably the overall incentive structure to maintain the competitiveness of the economy in the medium-term and energize the private sector. Although the Rwandese government has already taken a number of positive actions, such as starting the restructuring and privatization of public enterprises and abolishing export duties on manufactured products, its overall response to the economic crisis has been to increase the level of controls in the economy. Appropriate policy reforms are urgently needed in order to increase the competitiveness of exports and put Rwanda on a path of sustained development. Discussions are under way with the Bretton Woods institutions on a comprehensive reform program. While Rwanda's current debt service ratio is low, the government is concerned about its future debt servicing capacity. Therefore, it intends to rely mainly on grants and to continue to limit its external borrowing to highly concessional loans in support of its development efforts.

Prospects and Foreign Aid

Rwanda has usually benefitted from generous external aid in the form of grants and loans at highly concessional terms. Rwanda's medium and long-term debt (disbursed and outstanding) totaled US$621 million at end 1989, equivalent to 28 percent of GDP. The grant element has been over 70 percent on average. As a result, the debt service payments on medium and long-term debt are relatively low — about 16 percent of exports of goods and non-factor services in 1989.

Over the next five years no major changes are expected in Rwanda's export structure. Coffee and tea will continue to dominate exports. Although aggregate exports of goods and non-factor services are projected to increase in real terms, deteriorating terms of trade are likely to further depress Rwanda's import capacity. At the same time, import growth in real terms is needed to sustain a GDP growth which would allow a small increase in per capita income. Foreign assistance would have to continue at a level higher than in the past (about US$300 million a year) to help Rwanda to undertake necessary infrastructure and social investments as well as to increase imports which have been severely constrained in recent years. Given the low income level of the country, the vulnerability of its economy, and the heavy demand for social services, external financing should continue to rely mostly on grants or highly concessional lending, and include a high proportion of local cost financing.

RWANDA

Mid-1989 Population (mils.) 7.2
1989 Per Capita GNP in US$: 320

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.6	6.6	2.2	-3.2	-6.3
Net Indirect Taxes	4.0	6.6	7.6	..	..	..	..	..	..	..	..
Agriculture	74.8	61.0	45.8	38.1	37.8	37.1	..	8.7	0.4	-6.8	-11.0
Industry	6.9	8.7	21.5	22.4	22.1	22.8	..	8.9	3.2	-1.5	-2.3
(of which Manufacturing)	2.1	4.1	15.3	15.6	14.9	15.0	..	6.3	3.1	1.5	-1.7
Services	18.4	30.2	32.6	39.5	40.1	40.1	..	11.9	3.5	-0.6	-4.3
Resource Balance	-4.8	-1.8	-11.9	-9.3	-9.5	-8.9	..	..	..	..	..
Exports of GNFS	12.1	11.6	14.4	9.9	9.1	8.6	4.0	8.4	4.2	-14.1	-11.9
Imports of GNFS	16.9	13.4	26.4	19.2	18.6	17.5	3.2	10.8	5.3	1.5	-4.4
Total Expenditures	104.8	101.8	111.9	109.3	109.5	108.9	5.4	7.0	2.5	-1.4	-5.5
Total Consumption	95.0	92.4	95.8	93.7	93.8	94.4	5.3	6.5	1.5	-2.1	-5.0
Private Consumption	80.9	81.0	83.3	80.2	80.2	80.0	5.8	7.1	1.1	-2.7	-6.1
General Government	14.1	11.4	12.5	13.5	13.6	14.4	2.3	3.9	4.5	1.0	1.3
Gross Domestic Investment	9.8	9.4	16.1	15.7	15.7	14.6	5.7	9.4	10.0	3.3	-8.4
Fixed Investment	..	..	12.2	15.7	14.2	13.8	..	2.7	11.3	-8.0	-3.8
Changes in Stocks	..	..	3.9	0.0	1.5	0.8	..	..	..	..	..
Gross Domestic Saving	5.0	7.6	4.2	6.3	6.2	5.6	..	12.6	25.3	-1.5	-14.8
Net Factor Income	-0.5	0.4	0.1	-0.4	-0.6	-0.6	..	..	..	..	..
Net Current Transfers	0.0	-0.4	-0.3	0.3	0.5	0.3	..	..	..	..	..
Gross National Saving	4.4	7.5	4.0	6.2	6.0	5.3	..	..	22.8	-2.8	-17.3

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	59	90	139	171	166	156	5.6	6.6	2.2	-3.2	-6.3
Capacity to Import	6	8	13	17	16	16	4.0	10.6	6.1	-3.3	-4.3
Terms of Trade Adjustment	1	1	1	0	2	3	..	..	..	..	..
Gross Domestic Income	60	91	140	171	168	158	5.5	6.8	2.3	-2.1	-5.6
Gross National Product	59	90	139	171	165	155	5.6	6.6	2.0	-3.4	-6.3
Gross National Income	60	91	140	171	167	157	5.5	6.8	2.2	-2.3	-5.6

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	70.9	97.1	96.0	100.0	102.9	106.7	2.0	15.7	4.5	3.0	1.0
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	77.7	106.5	100.0	100.0	106.3	111.2	8.0	16.1	4.1	6.3	4.6
Implicit Expenditures Defl.	80.2	103.6	96.5	100.0	104.5	107.9	8.0	16.1	3.3	4.5	3.2

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.1	3.4	3.3
Labor Force	..	..	..
Gross Natl. Income p.c.	2.4	3.4	-1.0
Private Consumption p.c.	2.6	3.6	-2.1
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.6	1.6	2.5
Marginal Savings Rates:			
Gross National Saving	13.3	-2.8	14.0
Gross Domestic Saving	12.7	-2.4	13.6
ICOR (period averages):	..	..	6.7

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	94.2	93.4	92.8	..
Industry	2.4	2.7	2.9	..
Services	3.4	3.9	4.3	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.BEV.COFFEE	47.7	70.2	89.5	100.0	74.0	62.3	63	85	142	91	83	59
X.OAGRI.X	..	..	..	..	..	..	19	7	10	7	6	7
X.BEV.TEA	76.2	99.3	111.9	100.0	109.4	136.4	12	15	18	13	16	21
X.Wolfram	838.8	458.8	265.9	100.0		170.5	5	1	0	0		1
Manufactures	..	..	..	..	..	..	..	2	3	2	4	5
Residual	..	..	..	..	..	..	10	15	11	7	7	12
Total Exports FOB	..	..	..	..	..	..	109	126	184	121	116	105
F. Merchandise Imports												
Food	57.6	141.6	148.8	100.0	87.2	81.4	21	58	65	49	46	40
Fuel and energy	52.7	89.1	100.1	100.0	101.5	97.6	29	51	57	54	54	48
Other Consumer Goods	69.8	110.3	102.4	100.0	98.4	72.7	79	70	70	76	81	55
Other Intermed. Goods	80.2	120.9	95.8	100.0	106.5	112.9	..	51	49	59	65	103
Capital goods	59.9	67.4	95.2	100.0	103.0	106.1	71	68	103	117	125	86
Total Imports CIF	66.7	97.5	104.7	100.0	100.5	101.0	255	298	343	354	370	333

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	145.2	151.3	156.0	100.0	135.1	121.0
Merch. Imports Price Index	128.4	109.6	101.6	100.0	100.5	102.9
Merch. Terms of Trade	113.1	138.0	153.5	100.0	134.4	117.7

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	165	161	227	168	166	153
Merchandise (FOB)	134	126	184	121	118	105
Non-Factor Services	32	35	43	46	48	48
Imports of Goods & NFS	319	334	407	414	413	390
Merchandise (FOB)	196	219	259	267	279	255
Non-Factor Services	123	114	148	147	134	135
Resource Balance	-154	-173	-180	-246	-247	-237
Net Factor Income	2	-8	-13	-14	-22	-13
(interest per DRS)	2	4	5	7	8	8
Net Current Transfers	-3	4	7	7	11	6
(workers' remittances)	1	1	2	2	1	..
Curr. A/C Bal. before Off. Transf.	-155	-176	-186	-253	-258	-244
Net Official Transfers	107	112	117	119	139	119
Curr. A/C Bal. after Off. Transf.	-48	-64	-69	-134	-119	-125
Long-Term Capital Inflow	44	74	86	111	88	62
Direct Investment	16	15	18	18	21	15
Net LT Loans (DRS data)	25	55	64	82	73	78
Other LT Inflow (Net)	3	4	4	12	-7	-30
Total Other Items (net)	33	-10	11	10	4	4
Net Short Term Capital	35	-6	16	9	3	3
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-2	-4	-4	2	0	1
Changes in Net Reserves	-29	0	-28	13	28	59
Net Credit from the IMF	..	..	..	0	..	..
Other Reserves Changes	-29	0	-28	13	28	59
As Share of GDP:						
Resource Balance	-13.2	-10.1	-9.2	-11.4	-10.7	-11.0
Interest Payments	0.1	0.3	0.3	0.3	0.4	0.4
Current Account Balance	-13.4	-10.3	-9.6	-11.8	-11.2	-11.3
Memorandum Items:						
Reserves excl. Gold (mil. US$)	187	113	162	164	118	70
Reserves incl. Gold (mil. US$)	187	113	162	164	118	70
Official X-Rate (LCUs/US$)	92.84	101.26	87.64	79.67	76.45	79.98
Index Real Eff. X-R Base 1980	100.00	146.05	133.38	133.26	134.71	..
GDP (millions of current US$)	1,163	1,715	1,944	2,152	2,308	2,163

I. Budget (Public Finances)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	11.5	12.2	13.8	13.5	13.2	13.9	7.9	11.1	-1.8	0.8	3.2
Current Expenditures	8.7	10.0	11.9	14.0	13.5	13.7	16.1	16.6	18.6	-0.4	-0.8
Current Budget Balance	2.8	2.2	2.0	-0.5	-0.3	0.2	-13.8	-13.2	-124.6	-33.6	-172.2
Grants	..	2.8	2.6	3.0	3.2	2.9	..	-7.7	13.7	12.4	-11.4
Capital Expenditures	..	8.6	9.0	10.4	8.1	7.6	..	3.0	15.9	-20.1	-7.8
Adjustments	..	-0.3	-0.3	0.4	0.4	-1.5	..	-1.6	-237.4	6.9	-438.4
Overall Surplus/Deficit (Cash)	0.7	-3.9	-4.7	-7.5	-4.7	-5.9	-391.3	19.6	59.6	17.4	-35.3
Domestic Bank Financing	-1.9	3.5	3.5	4.6	2.9	2.8	-12.2	0.0	30.0	-35.6	-4.7
Domestic Non-Bank Financing	1.4	0.4	1.2	2.9	1.9	2.9	-34.6	186.2	148.1	-34.7	51.3

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	25	55	64	82	73	78	150	318	405	538	585	606
Official Creditors	27	58	69	82	76	80	143	306	396	526	577	599
Multilateral	20	43	50	61	60	63	91	232	298	391	436	452
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	10	29	36	39	30	31	58	152	195	251	274	303
Bilateral	7	15	19	21	16	17	52	74	98	136	141	146
Private Creditors	-2	-3	-5	0	-3	-3	8	12	9	11	7	8
Suppliers	-2	-2	-4	-3	-2	-2	8	9	7	4	2	2
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	25	55	64	82	73	78	150	318	405	538	585	606
IMF Credit	6	-2	-3	-3	-3	-3	14	10	9	7	4	1
Net Short-Term Capital	35	-6	16	9	3	3	26	27	27	39	44	38
Total incl. IMF & Net ST	66	47	77	88	74	78	190	355	441	584	632	645

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	38.66	47.80	48.17	46.72	46.84	49.99
3. IBRD+IDA as % of Total	38.66	47.80	48.17	46.72	46.84	49.99
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	11.90	11.68	12.99	15.59	19.76	17.75
3. IBRD+IDA as % of Total	11.90	11.68	12.99	15.59	19.76	17.75
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	81.90	185.29	170.26	299.14	332.50	377.99
2. IMF Credit/Exports	7.36	5.83	3.62	3.84	2.10	0.56
3. Short-Term Debt/Exports	14.17	15.74	11.35	21.70	24.96	23.69
4. LT+IMF+ST DOD/Exports	103.42	206.86	185.22	324.68	359.56	402.24
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	12.92	18.53	20.84	24.99	25.33	28.03
2. IMF Credit/GDP	1.16	0.58	0.44	0.32	0.16	0.04
3. Short-Term Debt/GDP	2.24	1.57	1.39	1.81	1.90	1.76
4. LT+IMF+ST DOD/GDP	16.32	20.68	22.67	27.12	27.39	29.83
Debt Service /Exports						
1. Public & Guaranteed LT	2.29	7.99	6.47	10.35	9.50	10.54
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	2.29	7.99	6.47	10.35	9.50	10.54
4. IMF Repurchases+Serv. Chgs.	0.05	0.99	1.05	1.56	1.65	1.68
5. Interest only on ST Debt	1.80	1.57	0.80	1.34	1.59	1.56
6. Total (LT+IMF+ST Int.)	4.14	16.38	8.32	13.24	12.74	15.71

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 1,000 square kilometers, with most of the 119,000 population living on the island of São Tomé. The islands were first settled by the Portuguese in the 15th century. They developed plantations of sugar cane, coffee, and, most recently, cocoa in medium and large estates, with 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 a marginal role was given to market mechanisms.

The variety of microclimates renders possible the cultivation of a broad range of tropical crops in São Tomé and Principe, but the soils are particularly suited to cocoa production. At present, about half the cultivated land area is used for the production of cocoa, which accounts for more than 90 percent of export earnings. A well organized cocoa estate network and supporting infrastructure were inherited from the colonial administration. However, maintenance dropped precipitously in the late 1960s, when the Portuguese started to disinvest in anticipation of Independence. From 10,000 tons at independence, cocoa output declined to 3,900 tons by 1987. This was due to the failure of the government to replace the departing Portuguese with experienced management, or to invest adequately in repair and maintenance of these estates. Agriculture production, including cocoa, was further discouraged by inappropriate price and trade policies, including an overvalued exchange rate.

São Tomé and Principe is endowed with abundant energy reserves and great natural beauty. Only 10 percent of the estimated hydroelectric potential has been harnessed so far. Development of tourism is still in its infancy, due to inadequate transport links with the rest of the world and poor physical infrastructure.

In efforts to diversify the economy, the government undertook an ambitious public investment program between 1975 and 1986, involving substantial investments in construction, beverages, poultry, fishing, transport, and tourism. These investments did not make a significant contribution to the growth of GDP, but created an unsustainable debt service burden. In spite of a series of economic measures aimed at reforming the incentive system, GDP per capita declined by an estimated 30 percent in real terms between 1984 and 1987. The growing losses of both the cocoa plantations and the majority of the non-agricultural public enterprises, combined with increasing debt service obligations, caused large fiscal deficits. The current fiscal deficit on a commitments basis averaged 20 percent of GDP during the period 1975-86. Including externally financed investment, the overall fiscal deficit reached 57 percent of GDP, with more than two-thirds financed by external resources.

Recent Developments

In mid-1987, faced with an unsustainable current account deficit, the government adopted a comprehensive structural adjustment program, supported by structural adjustment credits from IDA, the Special African Facility, the African Development Bank, and the IMF. More recently, France and Sweden have also supported the country's adjustment program. Most important of the policy reforms have been the introduction of a flexible exchange rate policy, including a substantial initial devaluation, as well as price and trade liberalization measures. In addition, the government has adopted and sustained a broad range of stabilization measures including the reorientation of the public investment program toward investments with high economic returns, rehabilitation of existing economic and social infrastructure, and, in particular, restoration of profitability to the major cocoa estates.

Exchange Rate Policy. Since the structural adjustment program started in mid-1987, the government has adjusted the exchange rate, resulting in a cumulative real depreciation of about 75 percent through May 1990. This real exchange rate devaluation has served to make the more efficient cocoa estates profitable, notwithstanding the fall in world cocoa prices — about 45 percent over the adjustment period. Furthermore, pursuit of a more realistic exchange rate policy has contributed to reducing the gap between the official and the parallel exchange rates from 100 percent in July 1987 to some 25 percent in May 1990. The government intends to continue its flexible exchange rate regime, designed to minimize the gap with the parallel market and achieve increased profitability for cocoa. The IMF has provided technical assistance to the government for this purpose.

Trade and Pricing Policy. Since mid-1987, when the government abolished the monopoly of the public sector trading company, ECOMEX, the private sector has taken an ever increasing role in exports and imports. Six commodities considered strategic (rice, beans, milk, cooking oil, wheat flour, and sugar) are still exclusively imported by ECOMEX. However, following the abolition of subsidies on these products, the government intends to allow the private sector to import these products, starting in mid-1990. All price subsidies on domestic and imported goods have now been eliminated.

Fiscal Policy. Some progress has been achieved on the fiscal front as corrective actions, including devaluation, expenditure restraint, and increased sales taxes and fees have been successful in reducing the deficit. For 1987 and 1988, the fiscal deficit on a commitment basis was reduced to about 8 percent of GDP, from 10 percent in 1986. To further reduce the deficit, the government implemented additional fiscal measures in February 1989, including price increases for six strategic food imports, as well as petroleum products, electricity, and telecommunications, and a fifty percent tax increase on alcoholic beverages and tobacco. In mid-1989, the government also eliminated price subsidies on beans, cooking oil and rice, and at end-1989, subsidies on the remaining essential goods—milk, sugar and wheat flour were eliminated as well. Despite these measures, the government did not achieve the program's fiscal target for 1989. While on a commitments basis the fiscal deficit is estimated to have remained at about 8 percent of GDP, compared with a target of about 5 percent, on an actual basis the fiscal deficit has remained at about 2 percent of GDP. Expenditures were within the program target, but revenues were 20 percent less than expected. This reflects lower than projected earnings due to: (a) the sharp fall in cocoa prices; (b) lower than expected taxable imports due to poor management of external resources; (c) serious weaknesses in tax administration, compounded by the authorities' failure to adjust fully specific import taxes as well as some administered prices in line with exchange rate adjustments; and (d) lower-than-programmed profit transfers from public enterprises.

Money and Inflation. As a result of fiscal measures, the government has reduced the need for its fiscal deficit financing through domestic credit expansion during the program period. The government followed a fairly stringent credit policy in 1988 and 1989 with net domestic credit expanding by 12 percent on average, from 18 percent in 1987. Indeed, the average rate of net credit expansion to government has slowed down during 1988 and 1989 when compared with 1987. While there is no reliable price index for São Tomé and Principe, it is estimated that inflation was reduced to approximately 40 percent for 1988 and to 30 percent in 1989. Although real interest rates remained negative during 1988-89, the government intends to review the interest rate structure by end-1990, and regularly thereafter, with the objective of achieving and maintaining positive real interest rates.

Balance of Payments. Owing to a deterioration in both the trade balance (due to the 50 percent fall in cocoa prices between 1987 and 1989 and an increase in foreign financed imports of construction material for housing) and in the services account, mainly debt service, the current account deficit is estimated to have increased in 1989 to US$26 million, compared with US$15 million each in 1987 and 1988. Export earnings amounted to US$11 million in 1989, compared to US$15 million in 1988 and US$10 million in 1987, while imports of goods and services amounted to US$27 million in 1989, compared with US$20 million in 1988 and US$17 million in 1987. The current account deficits have been financed by reschedulings of interest obligations, net foreign capital (mainly concessional) inflows, and the accumulation of interest and trade arrears.

External Debt. External debt outstanding and disbursed estimated at about US$80 million in 1987, had risen to about US$146 million by end-1989, the equivalent of approximately about 200 percent of GDP. The substantial share of nonconcessional loans in the external debt structure (50 percent at end-1987) is reflected in the scheduled debt service ratio. Thus, the scheduled debt service ratio was 110 percent in 1987, 60 percent in 1988 and 100 percent in 1989, reflecting rescheduling agreements with the U.S.S.R. in 1987, high export earnings in 1988 due to a drawdown of cocoa stocks accumulated in 1987 and low export earnings in 1989 due to declines in world cocoa prices.

Development Prospects

Over the medium term, the country will continue to face a very difficult economic and financial situation. Sustained implementation of a broad range of policies is required to stabilize the economy, while at the same time creating the conditions for self-sustained growth over the long term. The government, however, intends to continue promoting efficient production of foodstuffs and to encourage cash crop production for import substitution and export expansion, based on smallholder agriculture, by building up support services, e.g., credit facilities, rural infrastructure, and the maintenance of appropriate pricing and marketing policies. Reflecting these efforts, real output is forecast to increase between 1990 and 1995, as investments in the cocoa sector and other cash crops bear fruit. As a result of the government's adjustment policy, there is expected to be a significant shift of resources toward the private sector. 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.

SAO TOME AND PRINCIPE

Mid-1988 Population (thous.)	119
1988 Per Capita GNP in US$:	550

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	1973	1980	1987	1988	1989	1965-73	1973-80	1980-88	1988	1989
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	8.2	-0.5	2.0	2.5
Net Indirect Taxes	..	10.8	13.4	3.2	3.8	4.3	..	..	..	..	..
Agriculture	..	37.2	38.7	24.1	24.3	24.6	..	12.3	-4.6	3.0	3.5
Industry	..	21.3	17.2	40.1	39.5	39.0	..	18.6	4.6	0.5	1.0
(of which Manufacturing)	..	7.5	7.9	..	..	..	..	..	..	..	..
Services	..	30.7	30.7	32.6	32.3	32.1	..	3.6	-0.4	1.0	2.0
Resource Balance	..	8.5	-49.1	-24.9	-23.5	-54.0	..	..	..	..	..
Exports of GNFS	..	41.1	45.6	14.0	23.0	18.0	..	7.0	-0.2	46.6	-16.4
Imports of GNFS	..	32.6	94.6	38.9	46.5	72.0	..	16.4	-4.0	2.9	29.0
Total Expenditures	..	91.5	149.1	124.9	123.5	154.0	..	12.0	-1.8	-2.7	14.4
Total Consumption	..	77.9	114.9	113.1	103.1	105.4	..	11.3	-2.8	-10.9	-16.2
Private Consumption	..	68.2	91.3	87.7	81.9	86.7	..	12.5	-2.7	-14.0	-21.4
General Government	..	9.7	23.6	25.4	21.2	18.7	..	7.2	-2.8	-0.5	-1.0
Gross Domestic Investment	..	13.6	34.2	13.5	21.8	53.4	..	25.7	5.3	64.3	151.0
Fixed Investment	..	..	36.7	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	-2.5	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	22.1	-14.9	-11.4	-1.8	-0.7	..	..	..	..	771.1
Net Factor Income	..	0.1	6.2	-1.8	-3.8	-5.4	..	..	..	..	..
Net Current Transfers	..	0.0	1.2	-0.9	0.0	-0.5	..	..	..	..	..
Gross National Saving	..	22.3	-7.5	-14.1	-5.5	-6.6	..	..	..	..	..

In millions of LCUs (at constant 1987 prices)	1965	1973	1980	1987	1988	1989	1965-73	1973-80	1980-88	1988	1989
Gross Domestic Product	..	2,660	4,563	3,821	3,897	3,993	..	8.2	-0.5	2.0	2.5
Capacity to Import	..	..	1,103	534	755	493	..	11.2	-1.8	41.3	-34.7
Terms of Trade Adjustment	..	..	293	0	-28	-162	..	..	..	..	..
Gross Domestic Income	..	..	4,857	3,821	3,868	3,831	..	10.0	-0.8	1.2	-1.0
Gross National Product	..	2,717	4,958	3,752	3,740	3,760	..	9.3	-2.1	-0.3	0.5
Gross National Income	..	..	5,251	3,752	3,711	3,598	..	11.8	-2.4	-1.1	-3.1

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	1980	1985	1986	1987	1988	1989	1965-73	1973-80	1980-88	1988	1989
Consumer Prices (IFS 64)	..	..	..	..	..	..	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	32.8	41.2	62.5	100.0	140.0	182.0	..	2.0	19.0	40.0	30.0
Implicit Expenditures Defl.	36.9	46.3	61.7	100.0	145.2	210.8	..	6.4	15.8	45.2	45.2

D. Other Indicators:

Growth Rates(% p.a.):	1965-73	1973-80	1980-88
Population	2.3	1.8	3.0
Labor Force	..	..	..
Gross Natl. Income p.c.	..	10.2	-5.2
Private Consumption p.c.	..	10.9	-5.5
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	2.0	7.7
Marginal Savings Rates:			
Gross National Saving	..	-42.8	-11.7
Gross Domestic Saving	..	-66.6	-91.5
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	1965	1973	1980	1988
Agriculture	..	..	..	..
Industry	..	..	..	..
Services	..	..	..	..
Total	..	..	..	..

E. Merchandise Exports	Volume Index						Value at Current Prices (millions US$)					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
X.BEV.COCOA	..	..	..	..	..	..	16	6	9	6	10	6
X.FOOD.COPRA	..	..	..	..	..	..	..	1	1	0	0	0
X.BEV.COFFEE	..	..	..	..	..	..	..		0	0	0	0
X.FOOD.Z	..	..	..	..	..	..	..		0	0	0	0
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..			0	0	0
Total Exports FOB	..	..	..	..	..	..	..	7	10	6	11	7
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	7	4	4	6	6
Fuel and energy	..	..	..	..	..	..	..	..	1	1	2	2
Other Consumer Goods	..	..	..	..	..	..	..	1	0	1	1	1
Other Intermed. Goods	..	..	..	..	..	..	..	..	6	6	6	6
Capital goods	..	..	..	..	..	..	..	9	7	5	6	13
Total Imports FOB	..	..	..	..	..	..	..	24	18	17	20	27

G. Merchandise Terms of Trade	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices)					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*
Exports of Goods & NFS	20	9	13	10	14	11
Merchandise (FOB)	17	7	10	6	11	7
Non-Factor Services	3	2	4	4	4	4
Imports of Goods & NFS	22	29	33	30	33	43
Merchandise (FOB)	15	20	18	17	20	27
Non-Factor Services	6	9	14	13	13	16
Resource Balance	-2	-19	-19	-20	-19	-32
Net Factor Income	2	-2	-4	-3	-4	-4
(interest per DRS)	0	1	1	1	1	1
Net Current Transfers	1	0	-1	-1	0	0
(workers' remittances)	1	0	0	0	0	..
Curr. A/C Bal. before Off. Transf.	1	-21	-24	-24	-23	-36
Net Official Transfers	0	5	15	9	7	14
Curr. A/C Bal. after Off. Transf.	1	-16	-9	-15	-15	-22
Long-Term Capital Inflow	0	8	5	3	2	19
Direct Investment	..	..	..	..	0	0
Net LT Loans (DRS data)	9	7	7	9	8	8
Other LT Inflow (Net)	-9	1	-1	-5	-6	10
Total Other Items (net)	-13	9	2	7	17	12
Net Short Term Capital	-13	2	10	6	5	10
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	0	6	-8	2	12	2
Changes in Net Reserves	12	-1	1	4	-3	-1
Net Credit from the IMF	..	..	0	0	..	..
Other Reserves Changes	12	-1	1	4	-3	-1
As Share of GDP:						
Resource Balance	-4.3	-55.2	-29.8	-28.6	-29.5	-64.2
Interest Payments	0.5	3.4	0.8	0.7	1.3	1.4
Current Account Balance	2.3	-60.4	-37.0	-33.6	-35.7	-71.4
Memorandum Items:						
Reserves excl. Gold (mil. US$)	..	..	..	..	..	..
Reserves incl. Gold (mil. US$)	0	0	0	0	0	0
Official X-Rate (LCUs/US$)	34.77	44.60	38.59	54.21	86.34	124.67
Index Real Eff. X-R Base 1980	..	..	..	..	..	..
GDP (millions of current US$)	43	35	64	70	63	58

I. Budget (specify level)	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Current Receipts	..	40.0	20.0	20.0	20.0	20.0	..	-11.2	29.3	33.2	-15.0
Current Expenditures	..	-50.0	-30.0	-30.0	-30.0	-30.0	..	20.7	17.7	38.4	-10.0
Current Budget Balance	..	..	-10.0	-10.0	-10.0	-10.0	..	9.0	17.9	101.5	14.0
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	-40.0	-20.0	-20.0	-30.0	-30.0	..	-1.8	3.3	127.6	78.0
Adjustments	..	..	..	..	..	..	..	183.7	-117.4	111.0	..
Overall Deficit	..	-40.0	-30.0	-20.0	-40.0	-40.0	..	9.0	17.9	102.0	100.0
Official Capital Grants	..	10.0	20.0	10.0	10.0	20.0	..	161.7	-25.2	46.2	207.0
External Borrowing (net)	..	30.0	..	10.0	20.0	20.0	..	-82.0	467.0	171.0	118.0
Domestic Non-Bank Financing	..	-10.0	10.0	..	..	..	..	293.0	-83.0	-336.0	..
Domestic Bank Financing	..	0.2	-10.0	..	..	10.0	..	-189.0	81.0	53.0	105.0

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	9	7	7	9	8	8	24	62	72	84	91	94
Official Creditors	9	7	7	9	8	8	23	56	71	84	90	94
Multilateral	7	0	2	7	8	9	11	22	24	33	40	42
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	0	0	1	2	7	7	0	0	1	3	10	17
Bilateral	3	7	5	2	0	0	13	34	47	51	50	52
Private Creditors	0	0	0	0	0	0	0	6	1	1	1	1
Suppliers	0	0	0	0	0	0	0	0	0	0	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	9	7	7	9	8	8	24	62	72	84	91	94
IMF Credit	0	0	0	0	0	1	0	0	0	0	0	1
Net Short-Term Capital	-13	2	10	6	5	10	0	0	2	6	8	9
Total incl. IMF & Net ST	-4	9	16	14	12	19	24	62	74	91	99	104

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	1.11	3.67	11.10	17.80
3. IBRD+IDA as % of Total	0.00	0.00	1.11	3.67	11.10	17.80
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	0.00	3.45	4.76	0.00
3. IBRD+IDA as % of Total	0.00	0.00	0.00	3.45	4.76	0.00
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	100.82	638.49	530.37	875.67	622.69	863.68
2. IMF Credit/Exports	0.00	0.00	0.00	0.00	0.00	10.06
3. Short-Term Debt/Exports	0.00	0.00	16.23	66.40	54.74	81.43
4. LT+IMF+ST DOD/Exports	100.82	638.49	546.60	942.07	677.44	955.17
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	54.55	175.79	111.98	119.73	144.02	161.96
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	0.00	1.89
3. Short-Term Debt/GDP	0.00	0.00	3.43	9.08	12.66	15.27
4. LT+IMF+ST DOD/GDP	54.55	175.79	115.41	128.81	156.68	179.12
Debt Service /Exports						
1. Public & Guaranteed LT	4.72	27.99	9.59	30.09	14.37	19.21
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	4.72	27.99	9.59	30.09	14.37	19.21
4. IMF Repurchases+Serv. Chgs.						
5. Interest only on ST Debt	0.43			2.08	1.37	1.83
6. Total (LT+IMF+ST Int.)	5.15	27.99	9.59	32.16	15.74	21.96

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Senegal

The Senegalese economy shares many characteristics with those of its Sahelian neighbors: limited natural resources; an agricultural production base that is deteriorating because of the cumulative adverse effects of poor weather coupled with poor resource management policies and techniques; a high population growth rate (about 3.0 percent a year); and heavy dependence on external funding, with annual flows of development assistance (US$79 per capita in 1988) generally exceeding investments. The domestic market is small with a total population of about 7 million. Per capita GNP in 1988 was estimated to be US$650. Economic policy in Senegal, far from compensating for poor resource endowment, has in the past probably worsened economic performance through encouraging a large public sector with a record of inefficient resource utilization, as reflected in the high incremental capital output ratio (ICOR).

Despite considerable efforts at modernization, the Senegalese economy has not yet escaped its dependence on traditional mainstays: millet cultivation and cattle raising for domestic consumption and groundnut production, fishing and exploitation of phosphate deposits for export. Despite recent encouraging economic performance due to good weather conditions, production levels have barely reached those attained in the period before the 1981 drought. Both rural and urban average incomes are lower in real terms than in 1960. A feature of the economy is the high concentration in Dakar and the coastal belt of most modern sector employment, commercial facilities and social services, resulting in important interregional differences in economic potential and consumption patterns. With limited near-term potential for economic diversification, Senegal's economy is highly vulnerable to climatic vagaries and adverse movements in international commodity markets. Lacking the rich agricultural potential or mineral resources of other countries on the West African coast, the nation's growth prospects are modest.

Past Economic Performance

Senegal's economic performance in the period 1960-85 had been poor: GDP growth was estimated at 2.3 percent a year. Other indices of socioeconomic progress during this period also showed Senegal falling behind the generally poor levels recorded for Sub-Saharan Africa (SSA) as a whole - life expectancy (47 years in Senegal versus 50 years in Sub-Saharan Africa), primary school enrolment rate (55 percent versus 77 percent), infant mortality (13.7 percent versus 10.4 percent) and a higher-than-average percentage of the population living below poverty levels.

In the initial post-Independence period (1960-1966) GDP growth (about 3.5 percent a year) outpaced the population growth rate (about 2.9 percent a year). Economic management was relatively sound: government investments were primarily directed toward the building of infrastructure (roads, educational infrastructure, rural institutions) and such investments were relatively efficient (ICOR over the 1960-66 period averaged 4.9). In 1966, Senegal lost the preferential treatment accorded to the country's agricultural exports to the EEC and also encountered a series of poor rainfall years. Overall GDP growth fell from 3.5 percent a year on average during the 1960-66 period to 2 percent between 1967 and 1975. Nevertheless, the growth of government consumption, already high during the earlier period, continued. Further, in 1976-78, a fortuitous series of good rainfall and harvests and high prices for commodity exports (phosphate and groundnut products) led to a short-lived export boom masking for a time, the potential effects of the increase in oil prices. Consumption growth, both by the government (6.5 percent a year) and the private sector (5.0 percent) outstripped the GDP growth rate of just over 3 percent a year recorded in 1974-78. The saving rate showed a dramatic decline, falling from 12.3 percent of GDP in 1975 to less than 1 percent of GDP by 1979, after which it turned negative. The spurt in expenditure ignited by the boom was sustained by external borrowing of the government, used to finance massive investments in non-productive assets. Between 1975 and 1980, disbursed government and government-guaranteed debt on commercial terms increased more than two-fold to about US$364 million.

Recent Economic Developments

Senegal's gross domestic expenditure has consistently outpaced production, but in recent years, the resource gap has been shrinking, reaching 4.7 percent of nominal GDP in 1989. Domestic consumption, which accounted for almost the entire GDP during the first half of the eighties, has begun to decline following the compression of private consumption and domestic savings has recovered to 10.7 percent of GDP in 1989. Gross fixed investment also declined from its unsustainable level (in excess of 18 percent of GDP) in the late seventies to 15 percent of GDP over the past few years. Good harvests along with prudent demand management policies, which are crucial to real exchange rate depreciation where the nominal exchange rate is fixed, have contributed to the decline in the inflation rate to around 2 percent by 1989. Growth in the level of nominal wages has been moderate, though by comparison with countries in the same GDP bracket as Senegal, the wage level is high.

The government's fiscal stance has steadily improved through demand management measures and measures to increase revenues. However, the fiscal situation remains fragile as evidenced by a significant shortfall of revenue in 1988/89. Tax revenue represents only 13.4 percent of GDP, which is modest by international standards. The government still relies heavily on petroleum taxes, about one fourth of total revenue, which introduces uncertainty and imposes a heavy burden on the economy by maintaining petroleum product prices at 2.5 times world prices. In spite of some cutbacks, government spending continues to increase, especially for wages. As a result, the imbalance between wage and non-wage expenditures continues to widen and erode the productivity of the civil service. Despite the stabilization in the budgetary situation, Senegal has to rely on foreign funds for budgetary assistance. This situation leaves the management of the government's financial operations still vulnerable to external developments.

The current account deficit (excluding official transfers) has been improving steadily in the past five years, essentially on account of curtailment of imports. The deficit went from 18 percent of GDP in 1982 to 8.8 percent of GDP in 1989. After a rapid increase in the early eighties, total debt outstanding (including IMF, private non guaranteed and short-term debt) has since overall been rising at a slower rate than nominal GDP, reaching 78 percent of GDP in 1989. The total debt service ratio has remained manageable (around 29 percent in 1989) only because of debt relief.

While the liberalization process has introduced some degree of vitality in the more competitive manufacturing subsectors, the economy in general is still adjusting to the opening up of its market to external competition. One of the important short-term consequences of this adjustment is the rapid expansion of the informal sector, particularly in trade and commerce. While this development has helped foster income-generating employment, it has not helped generate much additional public revenue as the informal sector tends to escape most government regulations and taxation.

Development Prospects

In the medium term, even assuming reasonably favorable developments in climate and terms of trade, the Senegal economy can be expected to grow only marginally faster than the population. The physical constraints to development are not amenable to change in a medium-term perspective: improved soil and water resources management can affect agricultural production only gradually; mineral and fish resources are currently exploited at near-optimum rates; and, in spite of a recently articulated population policy, the demographic pressure on resources in both urban and rural areas will continue.

Economic projections of the most likely development scenario—involving normal weather, more efficient investment and faster than usual growth of non-traditional exports as a result of policy reforms under implementation, and further debt relief show modest GDP growth per capita in the 1990s. If, contrary to the assumptions underlying these projections, the implementation of the reform agenda slows down or stagnates and if, as a consequence, external financing from donors were to drop below their current levels, likely GDP growth would imply falling income per capita even with favorable rainfall and commodity prices.

In the longer term, Senegal's development potential will depend on four factors: (a) an improved climate for international trade and continuing prosperity in OECD countries; (b) a much improved domestic business environment conducive to private investment, including foreign investment; (c) a productive, skilled labor force; and (d) more rapid depreciation of the real effective exchange rate. If these conditions can be met, Senegal could take advantage of its location and climate to develop exports of light manufactures and service industry for the region.

Government Development Strategies

The government's overriding objective is to achieve a higher rate of economic growth commensurate with sustainable fiscal and external account deficits. More specifically, it aims at achieving an average annual growth rate of real GDP that would raise real per capita income and, at the same time, end the need for exceptional balance of payments financing. The attainment of this growth target assumes that agricultural production will also grow at an average annual rate greater than that of population. Groundnut production is projected to recover and stabilize at the level achieved in the early 1980s, or about 825,000 tons. Growth in the manufacturing sector is expected to accelerate from 3.5 percent in the early 1990s.

The achievement of these growth targets is predicated on favorable supply response in agriculture and industry and on the capacity of the economy to generate resources for rehabilitation and new investment. For the major export crops, as well as for rainfed food crops, technical, institutional, and environmental factors still represent important obstacles. Prospects for expanding fishing are limited. Finally, the expansion of the industrial sector will rely to a large extent on the revival of private sector activity and on the response by domestic and foreign investors to the industrial incentives and to reduced costs of factors of production.

In the long term, sustaining the improvement in real per capita income will hinge on the ability of the government to deal effectively with the difficult problem of rapid population growth. Although the government has recently formulated a population policy statement, it has yet to define a concrete action plan for its implementation (eventually to be supported by the Bank and other donors), and thus concrete results can be achieved only in the long term. Demographic growth will remain, at least for the next decade, one of the major constraints to Senegal's development efforts.

Medium-Term Adjustment Agenda

Over the medium term, the government intends to provide a more favorable and balanced macroeconomic environment to sustain economic growth. This objective will be achieved through controlling growth in public spending, limiting inflationary pressures and removing structural bottlenecks to economic growth and private sector participation. In keeping with this objective, the government will achieve a turnaround in the budget position in line with available domestic resources and taking into account a progressive reduction in the flows of external budgetary assistance by (i) strengthening public investment programming with a view toward emphasizing efficiency and directly supporting the productive sectors, (ii) enhancing growth of the private sector through appropriate incentive measures, including reductions in production costs, (iii) promoting and diversifying agricultural production, (iv) accelerating the reform of the public enterprise sector through rehabilitation, privatization and liquidation, (v) reforming and downsizing the civil service, and (vi) implementing a reform program for the banking sector.

In view of the still serious constraints to growth, these planned measures will have a gradual rather than dramatic impact on economic structure and performance over the medium-term. They nonetheless are expected to result in a rate of GDP growth exceeded in recent years only under favorable weather conditions. If this realignment in policies does not occur, there is the risk that the GDP growth rate would fall short of that of population, expected to continue at 3.0 percent annually. Provided high export growth rates can be sustained and Senegal does not borrow on non-concessional terms, the public debt service ratio could be reduced to a more manageable level by 1991.

SENEGAL

Mid-1988 Population (mils.)	7
1988 Per Capita GNP in US$:	650

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988p*	*1989e*	*1965-73*	*1973-80*	*1980-88*	*1988p*	*1989e*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	1.5	2.3	3.3	5.2	-1.5
Net Indirect Taxes	12.8	11.8	..	..	..	..	..	..	..	..	..
Agriculture	25.5	22.6	18.8	21.8	22.1	22.0	0.2	0.3	3.2	7.8	-7.1
Industry	18.1	19.7	24.5	28.8	28.9	31.1	3.5	6.5	3.8	3.7	-0.4
(of which Manufacturing)	13.6	16.1	15.1	18.9	18.9	20.2	4.0	1.9	3.4	2.7	-8.5
Services	56.5	57.8	56.6	49.4	49.0	46.9	1.5	1.5	3.2	4.9	0.4
Resource Balance	-4.0	-10.1	-15.7	-7.0	-5.3	-4.7	..	..	..	..	..
Exports of GNFS	24.4	28.6	28.3	25.3	25.6	27.4	1.6	7.1	0.3	5.5	-1.2
Imports of GNFS	28.5	38.7	44.0	32.3	30.9	32.1	0.1	9.4	-2.6	-2.5	0.4
Total Expenditures	104.0	110.1	115.7	107.0	105.3	104.7	1.1	3.4	2.0	2.8	-1.0
Total Consumption	92.2	91.2	100.4	91.7	90.8	89.3	-0.1	4.5	2.0	3.2	-1.8
Private Consumption	74.8	75.5	78.4	74.6	74.5	73.0	0.1	3.4	2.7	3.9	-2.0
General Government	17.4	15.7	22.0	17.1	16.3	16.4	-1.2	9.1	-0.9	0.3	-1.0
Gross Domestic Investment	11.9	18.9	15.3	15.3	14.5	15.3	8.1	-1.8	2.0	0.2	4.0
Fixed Investment	..	..	15.7	15.0	14.2	15.3	..	..	2.2	-0.2	6.3
Changes in Stocks	..	..	-0.5	0.3	0.3	0.0	..	..	..	..	..
Gross Domestic Saving	7.8	8.8	-0.4	8.3	9.2	10.7	7.1	..	..	19.2	14.4
Net Factor Income	-1.9	-2.3	-3.3	-4.9	-4.7	-4.8	..	..	..	..	..
Net Current Transfers	0.0	-1.7	-0.7	0.7	0.6	0.6	..	..	..	..	..
Gross National Saving	6.0	4.8	-4.4	4.1	5.2	5.9	4.2	..	..	39.2	23.2

In billions of CFAF (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988p*	*1989e*
Gross Domestic Product	843	922	1,093	1,382	1,454	1,432	1.5	2.3	3.3	5.2	-1.5
Capacity to Import	235	210	310	350	360	373	-1.6	6.6	0.4	3.0	3.6
Terms of Trade Adjustment	36	-2	-13	0	-9	9	..	..	..	..	..
Gross Domestic Income	878	920	1,080	1,382	1,445	1,440	0.6	2.2	3.4	4.5	-0.3
Gross National Product	828	902	1,057	1,315	1,386	1,362	1.5	2.2	3.1	5.4	-1.7
Gross National Income	864	900	1,043	1,315	1,377	1,371	0.6	2.1	3.2	4.7	-0.4

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	56.1	98.2	104.3	100.0	98.2	98.6	4.4	10.6	8.4	-1.8	0.4
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	58.3	90.8	97.3	100.0	102.0	103.9	3.0	9.0	8.1	2.0	1.8
Implicit Expenditures Defl.	58.9	91.7	97.5	100.0	102.8	103.5	4.1	8.7	8.0	2.8	0.7

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.3	2.8	2.9
Labor Force	..	..	..
Gross Natl. Income p.c.	-1.7	-0.7	0.3
Private Consumption p.c.	-2.1	0.6	-0.1
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	0.1	4.0	-0.8
Marginal Savings Rates:			
Gross National Saving	-47.7	-55.5	38.3
Gross Domestic Saving	42.8	-47.3	39.1
ICOR (period averages):	..	..	4.6

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	83.3	82.0	80.6	..
Industry	5.5	5.8	6.3	..
Services	11.3	12.1	13.2	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.FISH	95.0	121.7	129.1	100.0	104.0	..	100	120	163	163	173	..
X.FUEL	251.9	98.7	164.7	100.0	103.8	..	90	51	55	48	46	..
X.FOOD.GROUNDNUT	68.1	44.6	80.2	100.0	152.2	..	83	53	65	70	117	..
X.MET.P	88.5	94.0	99.6	100.0	123.2	..	78	58	68	66	79	..
Manufactures	60.4	62.8	79.5	100.0	98.6	..	89	89	133	184	196	..
Residual	33.5	100.2	105.3	100.0	102.7	..	41	110	135	142	150	..
Total Exports FOB	77.6	83.0	100.9	100.0	114.7	..	481	481	619	673	761	..
F. Merchandise Imports												
Food	54.9	109.8	117.8	100.0	103.4	..	210	258	280	242	311	..
Fuel and energy	103.2	97.2	116.9	100.0	96.4	..	276	195	142	144	133	..
Other Consumer Goods	60.2	64.5	94.2	100.0	89.5	..	151	120	177	188	202	..
Other Intermed. Goods	71.5	72.3	101.9	100.0	93.6	..	311	211	277	332	334	..
Capital goods	118.1	89.8	92.0	100.0	93.3	..	158	115	139	166	168	..
Total Imports CIF	75.3	86.9	106.6	100.0	96.0	..	1,106	900	1,015	1,071	1,147	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	92.0	86.0	91.1	100.0	98.5	..
Merch. Imports Price Index	137.0	96.6	88.9	100.0	111.5	..
Merch. Terms of Trade	67.1	88.9	102.5	100.0	88.3	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988p	1989e
Exports of Goods & NFS	807	792	1,026	1,157	1,267	1,277
Merchandise (FOB)	422	481	617	673	761	791
Non-Factor Services	385	311	409	484	506	487
Imports of Goods & NFS	1,215	1,120	1,311	1,437	1,538	1,495
Merchandise (FOB)	875	792	890	943	1,010	991
Non-Factor Services	340	328	420	494	528	504
Resource Balance	-408	-328	-285	-280	-271	-218
Net Factor Income	-99	-143	-185	-220	-233	-223
(interest per DRS)	57	43	90	115	117	116
Net Current Transfers	-20	17	26	30	32	30
(workers' remittances)	75	43	58	70	74	..
Curr. A/C Bal. before Off. Transf.	-526	-453	-445	-469	-472	-411
Net Official Transfers	140	133	176	213	205	246
Curr. A/C Bal. after Off. Transf.	-386	-320	-269	-256	-267	-165
Long-Term Capital Inflow	282	98	274	291	108	93
Direct Investment	13	-3	-2	-55	-73	-49
Net LT Loans (DRS data)	192	132	259	182	148	108
Other LT Inflow (Net)	77	-30	17	164	33	34
Total Other Items (net)	58	208	-1	-52	193	0
Net Short Term Capital	95	147	13	-26	198	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-37	61	-14	-26	-5	0
Changes in Net Reserves	46	14	-4	17	-33	72
Net Credit from the IMF	37	40	26	60	-48	-1
Other Reserves Changes	9	-26	-30	-43	15	74
As Share of GDP:						
Resource Balance	-13.5	-12.8	-7.6	-6.1	-5.4	-4.7
Interest Payments	1.9	1.7	2.4	2.5	2.4	2.5
Current Account Balance	-17.5	-17.7	-11.9	-10.2	-9.5	-8.8
Memorandum Items:						
Reserves excl. Gold (mil. US$)	8	5	9	9	10	19
Reserves incl. Gold (mil. US$)	25	15	21	23	22	31
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	100.00	103.06	111.93	106.14	99.83	95.51
GDP (millions of current US$)	3,016	2,564	3,738	4,599	4,980	4,663

I. Central Government Budget (Fiscal Year ending June 30)	*Share of GDP (%)*						*Growth Rates*				
	1980	*1985*	*1986*	*1987*	*1988*	*1989e*	*1980-84*	*1986*	*1987*	*1988*	*1989e*
Current Receipts 1/	23.0	19.5	18.8	19.2	18.2	17.9	9.6	8.9	11.8	1.4	0.6
Current Expend. & net lending	23.5	20.3	19.0	18.5	17.2	18.0	10.1	5.8	6.7	-0.5	7.1
Current Budget Balance 2/	-0.5	-0.8	-0.2	0.7	1.0	-0.1	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	5.0	3.2	2.8	2.8	2.9	2.8	9.2	-2.6	12.7	9.4	-1.7
Adjustments to cash basis	1.2	-1.1	-1.0	-2.0	-2.6	-0.3	..	..	..	..	..
Overall Balance 3/	-4.3	-5.0	-4.0	-4.1	-4.5	-3.2	..	..	..	..	..
Official Capital Grants	0.8	0.5	0.7	0.7	0.8	0.8	22.8	60.0	12.5	20.0	11.1
External Financing (net)	2.8	3.5	2.3	3.9	3.6	3.2	..	..	..	..	..
Domestic Non-Bank Financing 4/	-0.4	-0.6	-0.6	-0.6	-0.3	-0.1	..	..	..	..	..
Domestic Bank Financing (net)	1.1	1.7	1.6	0.1	0.4	-0.7	..	..	..	..	..
Memo Item:											

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)*						*Debt Outstanding & Disbursed (US$ millions)*					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Public & Publicly Guar. LT	196	130	256	184	148	110	941	1,903	2,404	3,006	2,985	3,011
Official Creditors	166	127	222	183	177	139	577	1,723	2,191	2,775	2,809	2,866
Multilateral	65	37	140	154	81	76	234	531	726	985	1,016	1,071
of which IBRD	16	0	3	-7	-10	-10	57	89	110	126	106	96
of which IDA	12	27	110	115	64	48	100	232	353	507	552	593
Bilateral	101	89	82	28	96	63	343	1,192	1,465	1,790	1,793	1,795
Private Creditors	30	3	34	1	-29	-29	364	181	213	230	176	145
Suppliers	-20	-1	0	0	0	0	78	6	3	3	1	1
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	-4	2	2	-2	0	-2	9	13	39	42	34	31
Total LT	192	132	259	182	148	108	950	1,916	2,443	3,047	3,019	3,042
IMF Credit	59	9	-9	7	-7	5	140	268	289	343	318	316
Net Short-Term Capital	95	147	13	-26	198	0	219	225	273	321	280	261
Total incl. IMF & Net ST	346	287	263	163	339	113	1,309	2,409	3,005	3,711	3,617	3,619

Bank and IDA Ratios	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Share of Total Long-Term DOD						
1. IBRD as % of Total	5.96	4.66	4.52	4.14	3.50	3.15
2. IDA as % of Total	10.51	12.10	14.46	16.62	18.28	19.49
3. IBRD+IDA as % of Total	16.47	16.76	18.98	20.76	21.78	22.64
Share of LT Debt Service						
1. IBRD as % of Total	3.15	12.29	8.61	8.81	7.55	6.81
2. IDA as % of Total	0.43	4.99	3.44	2.15	2.53	2.33
3. IBRD+IDA as % of Total	3.59	17.27	12.05	10.96	10.08	9.15
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	104.89	224.47	220.80	243.04	220.76	234.65
2. IMF Credit/Exports	15.48	31.36	26.12	27.34	23.28	24.38
3. Short-Term Debt/Exports	24.19	26.36	24.71	25.63	20.49	20.17
4. LT+IMF+ST DOD/Exports	144.56	282.19	271.63	296.01	264.52	279.19
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	31.48	74.71	65.36	66.25	60.62	65.22
2. IMF Credit/GDP	4.65	10.44	7.73	7.45	6.39	6.78
3. Short-Term Debt/GDP	7.26	8.77	7.32	6.99	5.63	5.61
4. LT+IMF+ST DOD/GDP	43.39	93.92	80.41	80.69	72.64	77.60
Debt Service /Exports						
1. Public & Guaranteed LT	19.82	8.99	14.90	17.29	17.39	19.26
2. Private Non-guaranteed LT	0.52	0.64	0.33	0.91	0.83	0.89
3. Total Long-Term Debt Service	20.34	9.63	15.23	18.20	18.22	20.16
4. IMF Repurchases+Serv. Chgs.	1.28	7.79	7.81	6.76	6.03	5.96
5. Interest only on ST Debt	2.70	2.32	1.51	1.70	1.68	1.77
6. Total (LT+IMF+ST Int.)	24.31	25.48	24.55	26.66	28.93	29.21

Notes:

2/ Includes non-capital grants, but excludes capital grants.
3/ Cash basis; includes non-capital grants, excludes capital grants.
4/ Includes repayments of ONCAD debt and errors and omissions.

e: estimated
p: preliminary

Sierra Leone

Sierra Leone is well endowed with natural resources. Classified as a "least-developed" country by the UN, it has a population of 3.8 million (1988), growing at 2.3 percent a year. Per capita income, which has declined more than a half in real terms since 1980, was US$240 in 1988. The distribution of income is markedly uneven, and over two-thirds of the population are estimated to live in absolute poverty. Life expectancy is estimated at about 40 years, one of the lowest in the world. Infant mortality is among the world's highest.

Agriculture, the dominant sector, provides employment to about two-thirds of the labor force but accounts for only two-fifths of nominal GDP. 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 accounts for 10 percent of GDP and is the most important source of foreign exchange earnings. Official diamond exports have been declining steadily; in FY89 they accounted for only 8 percent of total official exports compared with over 50 percent in the 1970s. Major exports are coffee, cocoa, and other minerals such as rutile, bauxsite, and gold. The manufacturing sector is small (6 percent of GDP) and consists largely of import substituting industries. It employs about 2 percent of the labor force. Services account for about 40 percent of GDP, comprising mainly transport, communications, insurance, finance, and government services.

Sierra Leone's physical and social infrastructure is not well developed. The main road network is generally adequate, but feeder roads are in very bad condition. Resource constraints have prevented maintenance of the electric power generation system and development of good hydro-electric power potential. Human resources development has been neglected. The literacy rate is below 30 percent and the primary school enrollment ratio, at about 40 percent of the eligible age group, is far below the average (75 percent) for low-income Sub-Saharan Africa countries. The quality of the civil service has declined over the past decade from its former high standards. Middle and lower level staff often lack adequate educational qualifications, and are preoccupied with second jobs because salary levels are insufficient for family subsistence.

Economic Performance

During the first decade of independence (1961-71) the economy grew at nearly 4 percent a year. The fiscal and foreign exchange position was healthy. The first oil price shock in 1973 notwithstanding, economic growth exceeded 3 percent a year up to 1975. GDP growth slowed to about 1 percent a year during 1975-80 mainly because of a decline in diamond output, as a result of the depletion of alluvial deposits, and the cessation of iron ore mining. GDP growth has been at a virtual stand-still since then, with an annual average growth rate of only 0.1 percent over 1980-88.

The current economic crisis has developed over the last decade. Investments made for the annual meeting of the Organization for African Unity in 1979 were a serious drain upon the country's reserves. The second oil price increase in the same year and the decline in prices for some of Sierra Leone's main exports, particularly iron ore and cocoa, reduced Sierra Leone's purchasing power. Exports of rutile and bauxite have increased over the past five years, but have not been a major source of additional government revenue. Partly because of an overvalued exchange rate, an increasing proportion of diamond and gold exports have been traded in the parallel market, are not taxed and constitute an important form of capital flight. Official cocoa and coffee exports have declined as smuggling has increased. Total officially recorded imports declined by one-fifth in real terms between 1985 and 1988.

From 1983 onwards, government attempted to address the problems of the declining economy through exchange rate adjustments but these were usually limited and applied too late and not sustained. In June 1986, a new government introduced comprehensive economic reforms including a market-determined exchange rate system, a liberalized import regime and decontrolled prices for many basic goods. However, in November 1987, the government introduced the National Economic Emergency Program which was characterized by rigid control of currency holdings, of cross border trade, and of prices of staple products. These measures were bypassed by the majority of the business community and resulted in a significant reduction in official trade and foreign exchange flows into the banking system. The regulations were abolished in June, 1989.

Since that time, government has had frequent discussions with the IMF and the Bank on the components of an adjustment program. Many of the policy changes introduced since December 1989 have been based on these discussions. The trade regime has been substantially liberalized: all import and export licenses have been abolished, except for gold and diamonds for monitoring purposes; importation of rice was privatized and the Sierra Leone Produce Marketing Board's monopoly on coffee and cocoa trade was eliminated. Import and export procedures were further simplified with the introduction of a market-determined exchange rate on April 25, 1990. Fiscal measures included higher excise duties on tobacco, beer, and petroleum products, substantial reduction of ghost workers, elimination of extra budgetary expenditures, reduction of subsidies, and a freeze on recruitment. In the area of monetary policy major changes since January 1990 include raising interest rates, decontroling lending rates, and introducing reserve requirement ratios to mop up excess liquidity in the banking system.

Exchange Rate Policy. The government revalued the leone from Le 53 = US$1 to Le 23 = US$1 by the end of August 1987. At that time the parallel rate was about Le 45-50 = US$1. Subsequently government gradually permitted the leone to depreciate slowly until it reached Le 44 = US$1 by the end of March 1989, when the leone was devalued to Le 65 = US$1. The parallel rate continued to diverge as a result of government's expansionary fiscal policy and reached Le 120 = US$1 by the end of 1989. On January 15, 1990, government devalued the leone by 54 percent in US dollar terms to Le 120 = US$1. Subsequently, on April 25, 1990, the leone was floated and most current account transactions were liberalized. The average official rate for May 1990 was Le156 = US$1.

Fiscal Performance. Revenues declined as a share of GDP from 12 percent by FY82[1] to 5.5 percent in FY86, but were restored to 8.5 percent in FY89. The decline was due to the fact that, as the leone became more overvalued and restrictive economic measures were enforced, a larger share of transactions were diverted to the parallel economy and tax evasion became widespread. In addition, government has, until recently, been prepared to grant exemptions on many import duties while failing to enforce the collection of hotel and other taxes. Meanwhile, government expenditures rose steadily through FY87 to 25 percent of GDP largely as a result of increased interest payment obligations, subsidies to state enterprises, and extra budgetary expenditures. Development expenditures have declined steadily and most donor supported programs have been severely curtailed in the last three years due to Sierra Leone's payment arrears problems. The overall budget deficit on a commitment basis reached 18 percent of GDP in FY87, but moderated to 7.8 percent by FY89, and was mostly financed by domestic bank borrowing.

Money and Prices. Monetary and credit developments have been highly expansionary in recent years, mainly due to the rapid expansion in credit to the government. Broad money growth was 81 percent in FY86 and 126 percent in FY87, before decelerating sharply in FY88 to 37 percent. Private sector credit has been crowded out. By June 1989, credit to the government accounted for 77 percent of total domestic credit outstanding. The rate of inflation in the consumer price index peaked in 1987 at 179 percent, decelerated to 34 percent in 1988 and has been increasing since then to a rate of about 80 percent per annum. Interest rates have increased substantially in recent years and lending rates were decontrolled effective April 2, 1990. Minimum interest rates for time deposits with maturity of over 9 months are now 46 percent.

Balance of Payments. The FY89 current account deficit stood at US$122 million (12 percent of GDP) compared to US$55 million in FY87. The main contributing factor has been an overvalued exchange rate which has shifted a large portion of exports away from official banking system, while a larger amount of imports continued to be financed by parallel market resources. Interest payment obligations have hovered at around US$47 million annually, with a substantial portion falling in arrears. International reserves are currently at a negligible level.

External Debt. Sierra Leone has relied heavily on foreign borrowing to finance its capital expenditures. By the end of 1989 external debt was estimated at around US$1.1 billion, equivalent to 130 percent of GDP or more than eight times recorded exports in 1988. Total arrears amounted to about US$650 million at the end of 1989, while scheduled debt service obligations amounted to about US$100 million, or 80 percent of

1 Fiscal year ends June 30 of specified year.

export of goods and services in FY89. Total debt outstanding for IBRD and IDA loans stood at about US$90 million at end-March 1990, of which US$8.5 million is in arrears. Total debt outstanding to the Fund was SDR78 million of which SDR71 million (127 percent of quota) is in arrears. Sierra Leone was placed in non-accrual status with the Bank in August 1987 and declared ineligible to use the general resources of the Fund in April 1988. The African Development Bank resumed disbursements in 1988 after a four year suspension but then suspended disbursements again in January 1989. Arrears to the AfDB are currently US$3.5 million.

SIERRA LEONE

Mid-1988 Population (mils.)	3.73
1988 Per Capita GNP in US$:	240

	A. Shares of Gross Domestic Product *(from current price data)*						**B. Growth Rates(% per annum)** *(from constant price data)*				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	4.0	1.2	0.1	-0.1	-0.6
Net Indirect Taxes	7.7	10.1	8.0	4.6	3.6	6.0	..	..	..	..	..
Agriculture	30.9	27.3	30.4	40.0	37.3	43.5	1.5	9.0	2.4	-0.4	1.0
Industry	26.3	24.6	20.1	17.3	17.3	11.7	1.9	-4.0	-3.8	2.2	-8.0
(of which Manufacturing)	5.5	5.4	5.1	3.9	6.0	2.7	3.3	-6.7	-2.5	14.3	-8.4
Services	35.1	37.9	41.5	38.1	41.7	38.8	7.1	-0.4	0.6	0.0	0.2
Resource Balance	-3.3	-0.7	-17.0	-2.1	-2.5	-6.3	..	..	..	..	..
Exports of GNFS	30.1	31.7	24.3	23.6	11.0	12.7	3.0	-9.4	-3.0	4.0	-18.1
Imports of GNFS	33.4	32.4	41.3	25.7	13.4	19.0	-1.5	0.8	-15.8	-4.2	15.9
Total Expenditures	103.3	100.8	117.0	102.1	102.5	106.3	0.1	5.5	-5.5	-2.6	9.3
Total Consumption	90.7	86.8	99.1	91.7	91.2	95.0	0.5	6.0	-5.6	-4.5	10.8
Private Consumption	82.7	76.2	90.7	85.6	81.2	85.2	..	..	-6.0	-7.4	10.0
General Government	8.0	10.6	8.4	6.1	10.0	9.8	..	..	-1.5	31.2	17.6
Gross Domestic Investment	11.8	11.7	16.2	10.4	11.3	11.3	-2.6	1.7	-4.2	13.2	-1.0
Fixed Investment	..	11.2	14.9	9.4	..	..	..	..	-4.7	20.5	-4.8
Changes in Stocks	..	0.5	1.4	1.0	..	..	..	..	..	..	..
Gross Domestic Saving	8.5	10.9	-0.8	16.5	8.8	5.0	15.4	..	..	-54.8	-65.6
Net Factor Income	-3.0	-1.6	-2.9	-10.8	-5.1	-6.3	..	..	..	..	..
Net Current Transfers	..	..	0.6	0.2	..	..	..	..	..	..	..
Gross National Saving	..	..	-3.1	5.8	..	..	..	..	..	..	..
In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	12,418	16,395	18,633	19,811	19,784	19,581	4.0	1.2	0.1	-0.1	-1.0
Capacity to Import	13,771	13,164	9,098	6,082	3,817	3,618	0.0	-4.3	-8.4	-37.2	-5.2
Terms of Trade Adjustment	3,062	1,712	2,210	0	-2,511	-1,567	..	..	..	..	..
Gross Domestic Income	15,480	18,106	20,843	19,811	17,274	18,014	1.5	3.3	-1.8	-12.8	4.3
Gross National Product	11,029	15,741	17,543	17,663	17,700	17,018	5.2	0.5	-1.3	0.2	-3.9
Gross National Income	14,091	17,453	19,752	17,663	15,190	15,452	2.3	2.7	-3.3	-14.0	1.7

C. Price Indices	(1987 = 100)						*Inflation Rates (% p.a.)*				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	2.6	19.8	35.9	100.0	134.3	..	3.5	14.7	69.6	34.3	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	19.9	35.5	..	..
Implicit GDP Deflator	6.2	25.0	40.4	100.0	151.5	221.9	1.9	15.0	52.0	51.5	46.5
Implicit Expenditures Defl.	5.0	24.1	38.3	100.0	169.4	233.1	5.4	11.9	57.3	69.4	37.6

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	1.9	2.1	2.3	
Labor Force	..	..	..	
Gross Natl. Income p.c.	0.4	0.6	-5.6	
Private Consumption p.c.	..	..	-8.2	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	-0.4	0.7	-106.5	
Marginal Savings Rates:				
Gross National Saving	..	..	..	
Gross Domestic Saving	21.7	-57.2	-285.9	
ICOR (period averages):	..	..	18.4	
Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	78.4	73.7	69.6	..
Industry	10.9	12.9	14.1	..
Services	10.7	13.4	16.3	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.MAN.DIAMONDS	196.1	115.7	109.8	100.0	7.8	..	122	27	28	28	4	..
X.BEV.COCOA	97.1	117.5	105.8	100.0	97.1	..	23	22	22	17	15	..
X.MET.X	38.2	78.2	76.3	100.0	96.6	..	12	28	37	43	43	..
X.MET.AL	52.6	85.3	104.7	100.0	112.1	..	11	22	26	21	22	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	46	33	35	22	22	..
Total Exports FOB	111.1	110.0	98.9	100.0	74.4	..	214	132	148	131	106	..
F. Merchandise Imports												
Food	625.0	262.5	281.2	100.0	118.7	..	82	45	42	30	32	..
Fuel and energy	476.2	285.7	142.9	100.0	161.9	..	59	35	14	14	31	..
Other Consumer Goods	..	..	..	..	..	..	22	4	7	8	16	..
Other Intermed. Goods	833.3	225.0	166.7	100.0	58.3	..	36	9	11	14	9	..
Capital goods	..	..	..	..	..	..	228	61	58	71	69	..
Total Imports CIF	500.0	185.0	185.0	100.0	110.0	..	426	154	132	136	156	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	147.1	91.6	114.3	100.0	108.7	..
Merch. Imports Price Index	62.7	61.2	52.4	100.0	104.3	..
Merch. Terms of Trade	234.7	149.8	217.8	100.0	104.2	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	275	160	152	183	136	..
Merchandise (FOB)	213	132	126	139	106	..
Non-Factor Services	62	28	26	44	29	..
Imports of Goods & NFS	471	184	145	157	191	..
Merchandise (FOB)	386	141	111	115	144	..
Non-Factor Services	85	43	34	42	47	..
Resource Balance	-196	-24	7	26	-55	..
Net Factor Income	-22	-35	-134	-65	-31	..
(interest per DRS)	8	2	2	1	3	3
Net Current Transfers	8	3	1	0	0	..
(workers' remittances)	0	0	0	0	0	..
Curr. A/C Bal. before Off. Transf.	-209	-15	134	-39	-86	..
Net Official Transfers	45	17	5	7	11	..
Curr. A/C Bal. after Off. Transf.	-165	2	139	-32	-74	..
Long-Term Capital Inflow	48	-66	-303	44	14	..
Direct Investment	-19	-31	-140	39	..	..
Net LT Loans (DRS data)	54	30	11	3	14	15
Other LT Inflow (Net)	12	-65	-173	2	0	..
Total Other Items (net)	102	68	179	-11	62	..
Net Short Term Capital	124	75	137	11	62	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-22	-7	41	-22	0	..
Changes in Net Reserves	15	-4	-15	-1	-2	..
Net Credit from the IMF	-6	4	7	14	-6	..
Other Reserves Changes	21	-8	-23	-14	4	..
As Share of GDP:						
Resource Balance	-17.8	-1.6	0.5	4.2	-4.7	..
Interest Payments	0.7	0.2	0.1	0.2	0.2	0.3
Current Account Balance	-19.0	-1.0	9.4	-6.3	-7.3	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	31	11	14	6	7	4
Reserves incl. Gold (mil. US$)	31	11	14	6	7	4
Official X-Rate (LCUs/US$)	1.05	5.09	16.09	34.04	32.51	59.81
Index Real Eff. X-R Base 1980	100.00	178.98	140.64	108.25	128.61	110.00
GDP (millions of current US$)	1,101	1,513	1,425	622	1,174	939

Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-85	1986	1987	1988	1989
A. Total Revenue	5.0	5.7	5.5	7.1	7.8	8.5	..	..	..	..	..
B. Total Expenditure	9.1	16.8	19.2	25.2	15.5	16.3	..	..	..	..	..
C. Deficit Financing	4.1	11.1	13.8	18.0	7.7	7.8	..	..	..	..	..
1. Official Capital Grants	..	1.1	1.4	3.6	1.6	1.2	..	..	..	..	..
2. External Borrowing	6.6	-0.5	-2.2	-5.5	-4.6	-3.4	..	..	..	..	..
3. Domestic Financing	6.8	6.0	10.5	10.9	4.5	3.7	..	..	..	..	..
4. Arrears	..	4.5	4.1	9.0	6.2	6.3	..	..	..	..	..

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J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	54	30	11	3	14	15	315	372	455	522	515	558
Official Creditors	43	34	11	4	15	15	204	269	358	416	415	466
Multilateral	8	17	10	4	14	15	62	124	142	161	169	226
of which IBRD	2	0	-2	0	0	0	13	9	9	11	10	10
of which IDA	2	9	9	2	1	0	29	59	71	80	78	78
Bilateral	34	16	2	0	1	1	143	146	216	256	246	240
Private Creditors	12	-4	0	-2	0	0	110	102	98	106	100	92
Suppliers	8	-3	0	-2	0	0	80	70	66	72	63	61
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	54	30	11	3	14	15	315	372	455	522	515	558
IMF Credit	4	-6	-11	-2	-1	-2	59	101	101	116	105	105
Net Short-Term Capital	124	75	137	11	62	..	53	87	64	115	108	60
Total incl. IMF & Net ST	183	99	138	12	75	..	427	560	621	752	727	722

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	4.26	2.42	2.04	2.16	1.94	1.72
2. IDA as % of Total	9.25	15.90	15.68	15.33	15.23	13.91
3. IBRD+IDA as % of Total	13.51	18.32	17.72	17.49	17.17	15.63
Share of LT Debt Service						
1. IBRD as % of Total	3.03	9.88	56.82	0.00	5.00	6.25
2. IDA as % of Total	0.25	6.17	27.27	0.00	0.00	0.00
3. IBRD+IDA as % of Total	3.28	16.05	84.09	0.00	5.00	6.25
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	113.96	232.18	299.10	285.24	379.09	..
2. IMF Credit/Exports	21.48	62.96	66.53	63.22	76.95	..
3. Short-Term Debt/Exports	19.16	54.53	42.17	62.68	79.53	..
4. LT+IMF+ST DOD/Exports	154.61	349.68	407.79	411.13	535.57	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	28.57	24.57	31.95	83.91	43.83	59.40
2. IMF Credit/GDP	5.39	6.66	7.11	18.60	8.90	11.13
3. Short-Term Debt/GDP	4.80	5.77	4.50	18.44	9.20	6.34
4. LT+IMF+ST DOD/GDP	38.76	37.00	43.56	120.95	61.93	76.86
Debt Service /Exports						
1. Public & Guaranteed LT	14.35	5.06	2.89	2.30	5.89	..
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	..
3. Total Long-Term Debt Service	14.35	5.06	2.89	2.30	5.89	..
4. IMF Repurchases+Serv. Chgs.	6.74	5.25	30.54	1.48	0.81	..
5. Interest only on ST Debt	2.17	2.31	2.69	3.06	3.61	..
6. Total (LT+IMF+ST Int.)	23.26	12.62	40.06	6.83	25.77	..

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Solomon Islands

The Solomon Islands, which became independent in 1978, is an archipelago consisting of six main islands and many smaller ones extending over 1,500 km, with a total land area of 28,400 sq km (larger than that of Fiji). The population of 310,000 is estimated to be growing at 3.5 percent per year, much faster than in other Pacific Island nations, with a per capita income in 1988 of US$550.[1] The Solomon Islands are well endowed with natural resources, although these resources have not been fully developed. Forestry is a major resource and the mineral potential is considered excellent, similar to Papua New Guinea, while the territorial waters are well stocked with fish, especially tuna. The export base rests on timber, fish, copra, palm oil and cocoa. Income in the economy, therefore, is extremely sensitive to movements in commodity prices.

The economy of the Solomon Islands comprises a modern monetized sector and a semi-subsistence smallholder agricultural sector. The former accounts for about two-thirds of GDP and includes large joint-venture corporations, which export primary commodities. Copra, the main smallholder cash crop, provides the major source of cash income for the 80 percent of the population in the informal sector. Smallholder production, largely on land utilized under traditional tenure arrangements, accounts for almost three-quarters of copra exports. Agriculture, including forestry and fishing, accounts for about 48 percent of GDP, while services, a major portion of which are government-related, generate about 42 percent; manufacturing contributes nearly 10 percent of GDP.

Recent Economic Developments

Real GDP growth has been driven by an intensive effort to exploit the country's natural resource base. At the time of independence the economy was primarily dependent on copra. In the early 1980s, foreign copra plantations diversified into palm oil and extensive efforts were made to supplement smallholder incomes through the establishment of cocoa. Furthermore, large investments were undertaken in the fisheries and forestry sectors. The increased volume of investment and exports led to robust GDP growth, averaging 5 percent per annum during the period 1981-84, although with large year-to-year fluctuations.

Subsequent economic events, however, were dominated by two developments: large movements in commodity prices and a disastrous cyclone, Namu, which struck the country in May 1986. Lower commodity prices for copra, palm oil and timber reduced the terms of trade by 25 percent over the two years 1985-86. Cyclone Namu caused heavy loss of life and severely damaged crops and infrastructure. Then in 1987, cold ocean temperatures and rough seas led to a substantial decline in the fish catch. As a result, real GDP growth averaged little over 1 percent per annum during the 1985-87 period. Inflation has been high compared to world levels, averaging nearly 12 percent per annum between 1981-84. This was caused by strong private sector demand for credit and the accumulation of foreign assets which led to high growth in the money supply.

The government attempted to support the economy through increased levels of expenditure. The current budget was expanded to cover wage increases, transfers to the provinces and subsidies to public enterprises. Development expenditures also rose due to cyclone reconstruction, and large investments in fishing vessels and airport expansion. By 1986, Solomon Islands faced sizeable deficits in both the current account (28 percent of GDP) and the budget (16 percent of GDP). These were financed by higher levels of external grants, including STABEX funds from the EEC, as well as a draw-down of foreign assets.

Over the past three years, Solomon Islands has been gradually recovering form the effects of Cyclone Namu. In the agriculture sector, palm oil production is now back to pre-1986 levels and copra production is responding well to improved price incentives. Fish

1. On the basis of the *World Bank Atlas* methodology for calculation of GNP.

production has benefitted from strong growth in the catch over the past two years and construction of a new fish cannery which began operations in 1989. To conserve forest resources and raise value added, the government imposed a milling requirement on timber exports. While this has held timber production well below the peak levels of the mid-1980s, more timber is now being processed. Manufacturing and construction activity have both done well over the past year. Overall, GDP growth remained low in 1987 but recovered to 4.3 percent in 1988 and an estimated 5.2 percent in 1989. This has been sufficient to support real growth in per capita incomes over the past two years. At the same time, higher levels of foreign savings, channeled through the budget, have raised the investment rate above 30 percent of GDP.

The government has been less successful in restoring fiscal discipline. In spite of a number of tax measures announced in 1988 and 1989, revenues only rose from 23 percent of GDP in 1986 to 26 percent in 1989. This was due to weaknesses in tax administration and a growing list of exemptions from customs duties. Current expenditures also rose, in response to wage increases for civil servants and teachers, and higher interest payments on external loans. Capital expenditures were boosted in 1988 by payments for two new fishing vessels, but subsequently declined to more normal levels. In 1989, the level of capital expenditure was constrained by the decision of the new government to suspend some aid. Therefore, although the budget deficit has been reduced from the high levels of 1986-87, disbursements of external grants and loans have also fallen. As a result, the government has had to draw increasingly on domestic sources to finance the budget.

Export performance over the past three years has been supported by improved commodity prices (except for cocoa). Currency depreciations in the mid-1980s also had a positive effect on producer incentives; the real effective exchange rate is presently 30 percent lower than in 1984. Export volumes have grown at 8 percent per annum over the last two years, with the current account benefitting from tourist receipts and private transfers as well as increased copra, palm oil, and fish production in the aftermath of Cyclone Namu. Imports, however, have also grown, boosted by a recovery in consumer demand and the purchase of two fishing vessels. Although the current account deficit was reduced in 1989, it remained above 30 percent of GDP. Between 1987 and 1989 net receipts from official grants and public loans declined by nearly a third to US$38 million.

Debt Management

From 1980 to 1988, public and and publicly guaranteed debt increased by over five times in US dollar terms, and total debt as a ratio of GDP from 15 percent to 60 percent. Public debt service-to-export ratios have traditionally been low because of the highly concessional nature of most borrowing. Moreover, debt payments on the two new fishing vessels pushed the public debt service ratio up from 2.8 percent in 1986 to 8.5 percent in 1989. However, private sector borrowing to finance export production has been increasing and total debt service obligations will rise. For the public sector, very careful consideration has to be given to further external borrowing except on favorable terms. Fortunately Solomon Islands, in common with most Pacific Island countries, is likely to have continued access to substantial grant assistance for most development purposes.

Development Priorities and Medium Term Prospects

The government's approach to development is set out in the "Program of Action 1989-93". The program commits the country to a free enterprise economic system and encourages the private sector to play an important role in development. To this end, the government proposes to set up several new financial institutions and privatize the commercial activities of the Investment Corporation. Macroeconomic policies are to be geared toward reducing the fiscal deficit and achieving "economic growth with stability". Sectoral priorities are focussed on the development of smallholder agriculture, human resources and economic infrastructure. Government policy also emphasizes the importance of improving land tenure arrangements and the management of natural resources, and the decentralization of government functions to the provinces.

The most important areas for policy action in the short term remain the underlying deficits in the balance of payments and the central government budget. STABEX grants and increased inflows of foreign aid for cyclone reconstruction have provided a cushion through 1989, but the imbalances are not sustainable. A substantial reduction in budget deficits is required, including the elimination of government dissavings by containing current expenditure and increasing revenues. Efforts are already underway to strengthen the expenditure control system and improve the budgetary process. Other important needs include a rationalization of public enterprises to reduce their claims on the budget, a revamping of provincial administrations to make them more cost effective, and a broadening of the tax base. These issues are now being addressed by the government.

There are a number of longer-term, structural development issues to be addressed. Rapid population growth, coupled with the rigidities of the traditional land tenure system, have led to acute pressure on agricultural land in certain areas. Measures to slow the rate of expansion of the population and to improve nutritional standards are an important area for government policy. The traditional land tenure system is to an extent inhibiting the development of the country's natural resources and slowing the pace of reforestation. Poor transportation and marketing services have hampered the growth of the agricultural sector and make the alleviation of rural poverty more difficult.

If the country is to create productive employment opportunities for new entrants to the labor force and raise the standard of living of the population in general, the growth performance of the economy will have to be improved beyond the 3 percent per annum of the past decade. A stronger growth performance throughout the 1990s will require concerted actions on several fronts, including a supportive macroeconomic policy framework, policies that stimulate the development of the private sector, increased investment by the public sector in projects and programs that have a high economic payoff, and a concerted effort to upgrade the human resources of the country.

A program of public investments that can support increased private investment (in many cases by small entrepreneurs) in agriculture, forestry, fisheries and other areas which offer the prospect of creating substantial additional employment is of particular importance. But a sound public investment program, on its own, will not be enough to improve the growth performance of the economy. It will have to be matched by policies designed to promote vigorous investment by the private sector, including, in particular, small farmers and businessmen.

A major responsibility of line ministries will be to identify, prepare and execute high priority public sector projects and programs: the capacities for this work may need to be strengthened substantially. Consideration needs to be given to establishing project preparation teams in the relevant ministries (e.g., agriculture). Complementary steps will be necessary to strengthen budgetary processes related to financing public investment projects and for the subsequent adequate operation and maintenance of these assets. Arrangements may be also needed to ensure that the government's central planning administration directs scarce public resources and donor funds to public investments that yield satisfactory economic returns, in terms of the increased output and incomes the economy can provide.

SOLOMON ISLANDS

Mid-1988 Population (thou.)	303
1988 Per Capita GNP in US$:	630

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates (% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	-3.2	9.6	6.9	4.5	5.7
Net Indirect Taxes	..	8.9	11.2	13.3	..	..	..	..	..	..	..
Agriculture	..	..	..	..	..	..	..	..	..	..	..
Industry	..	..	..	..	..	..	..	..	..	..	..
(of which Manufacturing)	..	..	..	..	..	..	..	..	..	..	..
Services	..	..	..	..	..	..	..	..	..	..	..
Resource Balance	..	..	-29.7	-32.3	-41.6	..	..	..	..	..	..
Exports of GNFS /1	..	..	70.2	59.3	61.9	..	..	..	5.3	21.2	..
Imports of GNFS	..	..	99.9	91.5	103.5	..	..	..	3.5	46.8	..
Total Expenditures	..	..	129.6	132.3	141.6	..	..	..	4.9	26.2	..
Total Consumption	..	..	93.2	105.0	103.0	..	..	..	5.3	26.6	..
Private Consumption	..	..	70.1	74.1	69.2	..	..	..	5.1	35.2	..
General Government	..	..	23.0	30.8	33.8	..	..	..	5.6	6.1	..
Gross Domestic Investment	..	..	36.4	27.3	38.6	..	..	..	3.5	24.3	..
Fixed Investment	..	..	..	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	1.5	6.8	-5.0	-3.0	..	..	..	..	..	..
Net Factor Income	..	-1.1	-7.2	-2.3	-0.3	..	..	..	..	..	..
Net Current Transfers	..	0.0	0.6	2.0	3.0	..	..	..	..	..	..
Gross National Saving	..	0.4	0.3	-5.2	-0.3	..	..	..	..	..	..

In millions of SI$ (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	..	96	178	295	307	324	-3.2	9.6	6.9	4.5	5.7
Capacity to Import	..	..	193	175	237	..	..	..	1.9	35.7	..
Terms of Trade Adjustment	..	..	61	0	25	..	..	..	..	..	..
Gross Domestic Income	..	..	239	295	333	..	..	..	4.1	12.9	..
Gross National Product	..	110	164	288	307	..	..	6.3	7.6	6.5	..
Gross National Income	..	..	225	288	332	..	..	..	4.6	15.3	..

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64) /2	46.7	79.3	90.1	100.0	116.7	134.2	..	8.7	11.4	16.7	14.9
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	54.1	98.0	87.2	100.0	121.2	126.8	5.4	8.7	10.8	21.2	4.6
Implicit Expenditures Defl.	39.0	79.1	89.4	100.0	105.5	..	..	..	13.9	5.5	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.9	3.4	3.7
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	0.9
Private Consumption p.c.	..	..	1.4
Import Elasticity:			
Imports (G+NFS) / GDP(mp) /3	..	..	0.5
Marginal Savings Rates:			
Gross National Saving	..	0.3	-1.0
Gross Domestic Saving	..	13.1	-16.6
ICOR (period averages) /4	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	..	..	..	..
Industry	..	..	..	..
Services	..	..	..	..
Total	100.0	100.0	100.0	100.0

Notes:

1/ Goods and nonfactor services.
2/ Denotes the line number in the country pages of the International Financial Statistics, IMF.
3/ At market prices.
4/ Incremental capital-output ratio.
e/ Estimated data.

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.FISH	71.7	84.7	129.9	100.0	116.4	..	28	21	30	25	36	..
X.TIM	93.4	117.6	155.0	100.0	97.2	..	19	17	21	19	19	..
X.FOOD.COPRA	113.4	155.9	116.1	100.0	97.3	..	13	16	3	4	8	..
X.FOOD.PALM OIL	135.0	160.7	125.0	100.0	117.5	..	8	8	3	3	6	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	5	8	9	13	13	..
Total Exports FOB	88.8	115.1	136.0	100.0	118.1	..	73	70	66	64	82	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	10	13	13	12	..	..
Fuel and energy	..	..	..	..	..	..	12	14	12	10	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	29	18	19	20	..	..
Total Imports CIF	..	121.3	112.8	100.0	146.9	..	74	69	67	67	104	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	128.4	95.0	75.9	100.0	108.3	..
Merch. Imports Price Index	..	84.9	88.1	100.0	105.4	..
Merch. Terms of Trade	..	111.9	86.1	100.0	102.8	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	85	85	84	87	107	..
Merchandise (FOB)	73	70	66	64	80	80
Non-Factor Services	12	15	18	23	27	..
Imports of Goods & NFS	109	114	118	132	181	..
Merchandise (FOB)	74	69	67	67	102	..
Non-Factor Services	35	44	51	65	79	..
Resource Balance	-24	-29	-34	-46	-74	..
Net Factor Income	-8	-6	-9	-3	-1	..
(interest per DRS) /5	0	2	1	2	3	3
Net Current Transfers	1	0	2	3	5	6
(workers' remittances)	0	0	0	0	0	0
Curr. A/C Bal. before Off. Transf.	-31	-35	-40	-46	-69	-54
Net Official Transfers	19	12	31	42	53	37
Curr. A/C Bal. after Off. Transf.	-12	-23	-9	-4	-16	-18
Long-Term Capital Inflow	6	8	18	25	22	15
Direct Investment	2	1	2	10	2	..
Net LT Loans (DRS data)	4	13	15	14	10	9
Other LT Inflow (Net)	0	-6	1	0	10	..
Total Other Items (net)	-3	0	-7	-12	1	..
Net Short Term Capital	-3	-1	-1	-11	0	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	0	1	-6	-2	1	..
Changes in Net Reserves	9	15	-1	-8	-7	3
Net Credit from the IMF	..	0	0	-1	-1	..
Other Reserves Changes	9	15	-1	-7	-6	..
As Share of GDP:						
Resource Balance	-20.4	-18.0	-23.7	-31.0	-41.9	..
Interest Payments	0.0	0.9	1.0	1.2	1.5	1.7
Current Account Balance	-27.0	-21.9	-27.9	-31.3	-39.2	-30.9
Memorandum Items:						
Reserves excl. Gold (mil. US$)	30	36	30	37	40	26
Reserves incl. Gold (mil. US$)	30	36	30	37	40	26
Official X-Rate (SI$/US$)	0.83	1.48	1.74	2.00	2.08	2.29
Index Real Eff. X-R Base 1980	100.00	91.72	77.55	67.16	68.95	..
GDP (millions of current US$)	116	160	145	147	176	175

Notes:

5/ The Bank's Debtor Reporting Service.
e/ Estimated data.

I. Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	24.6	22.4	22.6	23.7	24.9	25.6	19.1	7.5	22.1	30.7	..
Current Expenditures	25.0	24.3	26.3	26.2	27.6	27.6	17.6	15.3	16.1	31.3	..
Current Budget Balance	-0.4	-1.9	-3.7	-2.5	-2.7	-2.0	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	17.2	7.4	12.5	19.2	11.4	7.8	-11.7	80.6	79.1	-26.3	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-17.6	-9.3	-16.2	-21.7	-14.1	-9.8	..	..	..	..	..
Official Capital Grants	14.2	0.9	11.5	10.3	7.7	4.1	-23.4	1281.0	4.1	-6.6	..
External Borrowing (net)	3.5	2.9	7.2	11.9	4.8	2.1	..	..	..	..	..
Domestic Non-Bank Financing	3.0	1.6	-1.3	0.0	1.2	..	..	..	..	..	..
Domestic Bank Financing	-3.1	4.0	-1.2	-0.5	0.4	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	4	13	15	14	10	9	17	54	71	95	101	108
Official Creditors	4	7	7	14	10	11	17	43	53	75	83	92
Multilateral	4	3	4	5	7	9	7	29	35	44	49	57
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	0	2	1	1	1	2	0	5	7	10	11	13
Bilateral	0	4	4	10	3	1	10	14	18	32	34	34
Private Creditors	0	6	7	0	0	-2	0	11	19	19	19	17
Suppliers	0	0	3	0	0	0	0	0	4	4	4	3
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	4	13	15	14	10	9	17	54	71	95	101	108
IMF Credit	0	0	0	-2	0	0	0	3	4	2	2	1
Net Short-Term Capital	-3	-1	-1	-11	0	..	2	9	3	1	2	1
Total incl. IMF & Net ST	1	12	13	2	10	..	19	66	78	98	105	111

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	9.83	10.25	10.56	10.65	11.90
3. IBRD+IDA as % of Total	0.00	9.83	10.25	10.56	10.65	11.90
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	4.35	3.45	1.89	1.04
3. IBRD+IDA as % of Total	0.00	0.00	4.35	3.45	1.89	1.04
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	60.50	81.96	104.76	91.57	..
2. IMF Credit/Exports	..	3.37	4.03	2.43	1.54	..
3. Short-Term Debt/Exports	..	10.10	3.45	1.55	1.44	..
4. LT+IMF+ST DOD/Exports	..	73.97	89.44	108.74	94.55	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	14.98	33.67	49.11	64.39	57.62	62.16
2. IMF Credit/GDP	0.00	1.87	2.41	1.50	0.97	0.80
3. Short-Term Debt/GDP	1.72	5.62	2.07	0.95	0.91	0.80
4. LT+IMF+ST DOD/GDP	16.70	41.17	53.59	66.83	59.49	63.75
Debt Service /Exports						
1. Public & Guaranteed LT	..	2.69	2.65	3.21	4.79	8.50
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	..	2.69	2.65	3.21	4.79	8.50
4. IMF Repurchases+Serv. Chgs.	..	0.67	1.84	2.10	0.45	..
5. Interest only on ST Debt	..	0.56	0.46	0.22	0.09	..
6. Total (LT+IMF+ST Int.)	..	3.93	11.86	7.30	5.33	..

Notes:

Notes:

6/ Debt outstanding and disbursed.
e/ Estimated data.

Somalia

Somalia is a large and sparsely populated country with about 6 million people (excluding refugees) living on 738,000 square kilometers of land. Its climate is arid to semi-arid, a major factor in the economy's performance and potential. Two areas have relatively good rainfall (400-600 milimeters): a small area in the northwest around Hargeisa and a much larger area in the south between the Shebelli and the Juba rivers. Moderate droughts occur every 3-4 years and major ones every 8-10 years. In this harsh environment crop production takes place on about 1 million ha (1.6 percent of the area). Some 50,000 to 100,000 hectares along the Shebelli and, to a lesser extent, the Juba benefit from largely seasonal flood irrigation with low water use efficiency. Plans are underway for major irrigation rehabilitation along the Shebelli river and, in the longer term, for the development of irrigation along the Juba Valley through the construction of a large multi-purpose dam at Baardhere.

The mainstay of the economy has long been nomadic pastoralism, on an estimated 51 million ha of rangelands. About 50 percent of the population are nomads who depend on livestock for their livelihood, and roughly 25 percent are settled farmers. Livestock production accounts for about 47 percent of GDP and about 65 percent of export earnings. Apart from the traditional export of livestock, commercial agriculture is centered mainly on the production and export of bananas and the production of sugar, sorghum, and maize for the domestic market. Crop production generates about 13 percent of GDP, while fishery, a sizeable but undeveloped resource, contributes about 1 percent. The agricultural sector as a whole represents about 63 percent of GDP at market prices.

The existence of several minerals, including oil has been confirmed, but their exploration is still at an early stage. Manufacturing, which only contributes about 5 percent to GDP, is dominated by 23 large plants, predominantly in the public sector, which account for over 80 percent of employment, output and wages in the sector. Leather and tanning, potentially a major activity based on Somalia's abundant resources of hides and skins, has never exceeded 4 percent of total manufacturing output.

The economic flows not captured by official statistics are large. Smuggling of livestock as well as of hides, skins, frankincense and myrrh has been widespread. Similarly, private imports are grossly under-recorded, and thus private consumption is underestimated in the national accounts. A large share of private imports are directly financed from the income of Somali workers abroad that escape recording. Both the number of Somalis abroad remitting foreign exchange through unofficial channels to their families in Somalia and the level of such remittances are a matter of considerable uncertainty. A 1984 ILO study estimated the number of workers abroad at between 120,000 and 180,000 and the level of remittances at between US$300 million and $400 million, or about US$50-70 per capita.

Somalia is entirely dependent upon external assistance for the financing of development. After joining the Arab League in 1974, Somalia mounted a successful effort to attract funds from the Arab petroleum exporting countries. After 1977, the sources of foreign assistance shifted from the centrally planned economies (except for the People's Republic of China, which maintains a large program) toward Arab bilateral and multilateral institutions and OECD countries. Somalia received between US$300 and 400 million annually of gross Official Development Assistance in the 1980s or about US$50-70 per capita. In 1988 concessional aid flows for project-related imports were about US$190 million. Program aid dropped from US$108 million in 1987 to US$50 million in 1988.

Somalia is among the poorest countries in the world and is classified by the United Nations as a least-developed country. A census taken in 1987 has completed initial field work and the final count should be available during 1990. The World Bank estimate of population in 1988 is 6 million, growing at about 3 percent. Also some 300,000-800,000 refugees (ethnic Somalis and Oromos from neighboring regions in Ethiopia) are still in the country. Per capita GNP in

1988, at market exchange rates, is estimated at about US$170. Other indicators of the country's low level of social and economic development include: an average life expectancy of only 46 years; an infant mortality rate of approximately 152 per thousand; and an estimated enrollment rate for primary schooling of around 14 percent.

Following its assumption of power in 1969, the government adhered to a program of "scientific socialism" whose stated objectives were egalitarianism and social justice, development through the public sector and the formation of cooperatives. Public ownership and management expanded both through nationalization and through the creation of new public enterprises.

In the early 1970s the revolutionary regime adopted Somali as the official language of the country. A program of literacy and primary education had notable results, with the primary enrollment rate reaching 59 percent in 1973 (a dramatic deterioration, however, has taken place since 1981). In other respects, however, the record in the social sectors has been less impressive, particularly in water supply, sanitation and health, where services have frequently been biased in favor of the urban population. During the 1970s, a combination of exogenous factors, such as a drought in 1974/75 and a border conflict with Ethiopia in 1977/78, as well as inappropriate policies led to stagnation in commodity production and exports toward the end of the decade. Mismanagement in the overextended public sector eroded incentives and fostered gross inefficiencies in resource use. Between 1971 and 1981, the average annual growth rate of GDP was around 3 percent implying no growth in real per capita GDP.

Between 1975 and 1981 the government's financial situation deteriorated rapidly, mainly because of the expenditures resulting from the border conflict with Ethiopia, the cost of maintaining large numbers of refugees, and a growing wage bill associated with the government's policy of employing all secondary and tertiary graduates who sought public sector employment. At the same time, foreign aid declined significantly. By 1979, the government's recourse to the central bank had risen to record levels (about 13 percent of GDP). Meanwhile, the stagnation of exports and a surge in imports associated with weak domestic production and a rapid increase in domestic demand, resulted in large deficits in the current account of the balance of payments. Thus, by 1980-81 Somalia was faced with an economic and financial crisis characterized by high inflation, stagnation in production and exports, large negative domestic savings, depleted foreign exchange reserves and growing external debt-service obligations and arrears.

Recent Adjustment Efforts

The 1980-88 period has been characterized by repeated attempts on the part of the government to address the serious economic and financial crisis facing the country. Each attempt met with initial success but ultimately succumbed to a combination of external shocks and domestic policy slippages. During this period, Somalia has gradually moved from a highly controlled economy to a market-oriented economy with a progressive dismantling of controls. Thus, many of the difficulties facing the economy today relate to the "officially recorded" economy and do not reflect the underlying vibrance of the unofficial economy which has responded positively to the reduced role of the State.

With interruptions in 1984 and again in the latter part of 1987, the government undertook a number of policy reforms within the framework of IMF and Bank-supported programs. These programs included major devaluations of the official exchange rate, the introduction of a foreign exchange retention scheme for exporters, and the establishment of a legal free market for foreign exchange; fiscal and monetary restraint; and significant liberalization of agricultural pricing and marketing. The positive effect on the economy of these policies was largely undermined by external factors including the introduction of a ban on Somali cattle exports by Saudi Arabia, and the adverse effect of major droughts on agricultural output in some years. On the domestic front, the government's failure to correct for the decline in revenues with expenditure reductions or other measures caused a sharp increase in the fiscal deficit and fueled inflation. Also, lack of confidence in the country's economic and political stability on the part of private investors inhibited any significant rise in private investment.

Toward the end of September 1987, the government terminated the auction system and fixed the exchange rate at US$1 = 100 So. Sh., which represented a 37 percent appreciation of the Somali shilling in local currency terms. An export retention scheme was put in place which allowed exporters to retain 40 percent of their foreign exchange earnings. Price controls were reintroduced in February 1988, on a large number of imported and domestically produced goods.

Following the termination of the foreign exchange auction, the economic and financial situation worsened considerably in the latter part of 1987 and the first half of 1988. The flow of quick disbursing assistance was adversely affected by the disruption in program implementation. Imports were drastically reduced due to a decline in external financing and the diversion of exports to the unofficial market as the real effective exchange rate appreciated once again. As inflation accelerated, shortages of essential goods at the officially controlled prices became widespread, the balance of payments came under extreme pressure, and further external payments arrears accumulated. Following the expansionary policies of 1987, the government resorted to very tight fiscal and monetary policies beginning in 1988, but tax revenue continued to decline in real terms, reflecting the compression of foreign trade and further deterioration in tax administration. Inflation, fueled by the large monetary and credit expansion of 1987, kept accelerating until it reached a rate of 150 percent in the second quarter of 1988.

In July 1988, the government adopted a policy package, for the second half of 1988. The package aimed at reducing financial imbalances, moderating inflationary pressures, improving export competitiveness, and setting the stage for the reformulation of macroeconomic and structural policies in a medium-term context. The key measures taken at that time included a devaluation of the exchange rate by 44 percent in foreign currency terms; the lifting of price controls; a continued tight fiscal stance; and sharp increases in nominal interest rates.

The initial results of implementation were positive. The fiscal deficit was substantially lower and inflation decelerated in the last quarter of 1988. For the year as a whole, however, the economy continued to face difficulties. The balance of payments remained under severe pressure, as merchandise exports fell to an unusually low level of US$58 million in 1988. In addition to inadequate economic incentives, security problems in the northwest played a major role in the sharp decline in the export revenue from livestock. GDP at factor cost declined by more than 2 percent (net of the large stock accumulation it declined by about 5 percent). Despite a major slowdown in the second half of the year, the point to point inflation rate at end-year 1988 was 107 percent.

Economic Performance, 1980-88

Somalia's economic performance between 1980 and 1988 under stop-go policy conditions has been mixed. On the one hand, with the exception of two drought years, economic growth has been encouraging. This growth has been stimulated by the agricultural sector, which has clearly responded well to the liberalization of pricing and marketing policies during the 1980s, in contrast to the 1970s when the policy framework depressed farm-gate prices and discouraged production. On the other hand, in almost all other respects, economic performance has been unsatisfactory. The investment to GDP ratio has been high throughout the 1980s (around 30 percent), owing to an ambitious public investment effort financed almost totally by donor assistance. However, returns on this investment have been relatively low. Private investment levels have been low, reflecting the uncertainties in the policy environment. Domestic public savings rates have been negative throughout this period (ranging from -2 to -5 percent of GDP), while the rate of national private savings for the most part has fallen short of private investment.

On the fiscal side, revenues net of grants have averaged a low 5-8 percent of GDP, while total expenditures have varied from 18-31 percent of GDP resulting in large deficits and a heavy reliance on domestic bank financing. The low revenue yield reflects weaknesses in tax administration combined with the large volume of transactions taking place outside the official economy. The large variations in public expenditure have been primarily on the investment expenditure side; recurrent expenditures have been more stable (averaging 11-15 percent of GDP) and rather low, resulting in a substantial decline in real wages for civil servants (with attendant problems of morale and efficiency) and a compression of expenditures for essential social services like health and education.

The lack of fiscal and monetary discipline has had its impact not only on domestic prices but on the balance of payments. Despite frequent devaluations during this period, the real effective exchange rate appreciated sharply in 1984 and 1988 after having depreciated in 1985-87. The gap between the effective export exchange rate in the official market and the parallel market rate remained sufficiently wide to encourage substantial smuggling of exports. As a result, exports flowing through official channels stagnated over the period, while imports declined in real terms but remained three to six times larger than exports. The stock of long-term debt climbed more than three-fold from $613 million in 1980 to $2,335 million in 1988, which included arrears. Of the total debt outstanding and disbursed including arrears, $976 million was owed to multilateral creditors. The scheduled debt service ratio climbed from about 5 percent in 1980 to above 200 percent in 1988.

Development Prospects

In the absence of other known resources, Somalia's development prospects are in the agricultural sector. The livestock sub-sector will continue to be the major contributor to Somalia's output, exports and employment. Even though the rangelands are near maximum carrying capacity, livestock offtake can be substantially increased by improving animal health services and marketing systems, and related facilities. The livestock sector can support a much larger consumption of dairy products and the export of specialized livestock products. The crop sub-sector has considerable potential, particularly in high-value oilseeds, cotton, fruits and vegetables. However, the potential of the sector can be exploited only through better incentives, more efficient irrigation and other infrastructure, and support services, as well as improved marketing arrangements.

In industry, the private sector is small and inexperienced. Over time, however, the private sector, which has displayed dynamism in the trade sector, can play a much bigger role if a more conducive business climate is established and the confidence in the economic and political system is restored.

A reorientation and restructuring in the public sector is also necessary. A major effort is needed to increase the extremely low share of government revenue in GDP so that large dependence on external funds for government expenditure is reduced. Government spending has to be reoriented to halt the deterioration of infrastructure for lack of maintenance funds. The total share of education and health expenditures must be raised to meet basic needs in the social sectors. Reform of the civil service deserves high priority and the low level of remuneration in public sector employment must be corrected. Wages in the public sector are well below subsistence levels, which has led to widespread absenteeism, low morale and poor performance. Adjustment in the public enterprise sector is also a high priority. This calls for government divestiture or liquidation of a number of industrial enterprises, while restructuring the few that may remain under government ownership.

As much as these medium- to long-term structural adjustments are needed, in the short to medium term macroeconomic adjustment is essential. Achieving economic stabilization, establishing and maintaining a realistic exchange rate, reducing fiscal imbalances, and limiting monetary expansion are the necessary ingredients for achieving sustained growth in the economy.

Developments in 1989

The government's current adjustment program is intended to support the government's overall adjustment efforts while helping to sustain and deepen reforms in the agricultural sector. Already, there has been evidence of large private sector exports of hides, skins, frankincense and myrrh, and implementation of the other structural adjustment measures, including the enactment of a new banking law which is also progressing satisfactorily.

The government has introduced measures aimed at restoring incentives, promoting exports, and supporting the capacity for implementation. To encourage trade, the exchange system allows exporters to retain 40 percent (70 percent for non-traditional exports) of their foreign exchange earnings and a non-discriminatory foreign exchange allocation system for private sector imports has been put in place. To further encourage exports, the state monopoly on maritime shipping and on domestic marketing and export of hides, skins, frankincense and myrrh has been abolished. To improve the delivery of financial services the government passed legislation fully opening the banking and insurance fields to private Somali and foreign investors. The government also abolished its monopoly over the imports and distribution of veterinary medicine and the provision of veterinary services, and is developing an active plan to improve land tenure policies and administration.

The program aims to reduce sharply the overall cash budget deficit in order to moderate inflationary pressures while providing adequate financing to the private sector. The government has maintained budget discipline despite further deterioration in the revenue effort and, by the end of 1989, reduced its net indebtedness to the central bank by an estimated 2 percent of GDP. For 1990 and beyond, the government has decided to begin a phased reallocation of expenditures in favor of economic and social services. As for public enterprises, the government is committed to liquidating those determined to be failing, and rehabilitate those that are viable.

Moreover, the authorities have continued to adjust the exchange rate weekly to reflect changes in the cross rate of currencies in the basket, to correct for the relative rate of inflation in Somalia with respect to its trading partners. To further improve the competitiveness of the Somali economy and narrow the gap between the official and market rates, the government is committed to make further discrete adjustments over and above the weekly adjustments.

The government did not achieve its target for inflation in 1989 as the rate reached 149 percent by year end. This was primarily due to ineffective control mechanisms over the Commercial Bank. During 1989, credit extended to the private sector increased by 177 percent, more than three times the programmed increase. Other factors contributing to inflationary pressures have been the sharp depreciation in the free market foreign exchange rate in the wake of intensified capital and human flight from the country, and delays in the confirmation of letters of credits under the commodity import programs.

Slippages have also occurred in efforts to maintain a relatively narrow gap between the official and the market exchange rate. Despite frequent devaluation in the official exchange rate, the market rate remains significantly higher, with adverse consequences on the ability of the central bank to attract export transactions to official channels.

On the revenue side, the government's effort amounted to 5.3 percent of GDP, a level below the previous record low of 1988. This dismal performance was mainly due to the marked deterioration in security conditions and failure to implement additional tax measures and improve tax administration. Administered prices were also not adjusted to reflect the higher foreign exchange costs of major inputs thus creating the need for large implicit transfers to public enterprises through the banking system.

The Medium-Term Adjustment Program, 1990-92

Progress on stabilization and adjustment is likely to require several years. During this period the task will be to maintain economic policies on track, follow through on announced intentions, improve the climate for private participation, ensure continued donor support and promptly take corrective measures when necessary. With the convergence of these elements and in the absence of major external shocks, the program envisages a GDP growth rate above population increase, primarily driven by a strong performance in the crop, manufacturing, and service sub-sectors. In the medium term, however, per capita consumption will stagnate, unless more resources than envisaged thus far are forthcoming to permit higher import levels.

The government's adjustment program aims at improving the well-being of all income groups and providing incentives for increased employment. However, some of these measures may have negative short-term effects on consumers, primarily by raising prices of food, water, transportation and other services. Such effects will fall more heavily on those urban consumers who are at present benefitting from subsidized prices and whose incomes do not rise quickly. To counteract these adverse consequences of adjustment, the government has established a monitoring system to examine the position of vulnerable groups and a Social Action Fund to finance interventions to address their problems. This is the first step in a process which will enable the government to design and support policies and programs to address the social dimensions of adjustment.

Somalia faces a serious external debt situation in the medium term. During the period 1990-92, the scheduled debt service ratio, excluding the repayments of arrears, is projected to be about average 84 percent of export earnings (goods and all services). More than 40 percent of total outstanding external debt (US$2.5 billion, excluding short-term debt, but including the arrears on principal), is owed to multilateral institutions ($924 million). Arrears, excluding those on "frozen" debt to some Eastern-bloc countries, are projected to be eliminated in 1991 by a contribution of exceptional debt rescheduling/relief and cash assistance from donors. A Support Group has been formed to mobilize the resources needed to clear Somalia's current and overdue obligations but so far progress in the process has been disappointing.

SOMALIA

Mid-1988 Population (mils.)	6
1988 Per Capita GNP in US$:	170

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	3.5	5.8	2.5	-1.3	2.9
Net Indirect Taxes	10.1	12.0	5.9	4.4	3.7	4.0	..	..	..	..	..
Agriculture	63.4	53.9	64.4	60.4	62.9	62.2	..	11.3	3.9	3.8	1.7
Industry	5.2	11.6	7.5	9.7	9.0	9.2	..	-2.2	2.3	-8.9	4.6
(of which Manufacturing)	2.3	6.6	4.5	5.0	5.0	5.2	..	2.5	-0.1	-5.0	5.3
Services	21.3	22.5	22.2	25.5	24.3	24.6	..	2.6	1.2	-7.8	4.0
Resource Balance	-3.5	-13.0	-55.3	-37.6	-25.5	-38.3	..	..	..	..	..
Exports of GNFS	17.2	13.9	33.2	10.5	7.6	7.7	1.6	15.3	-12.4	-28.2	6.1
Imports of GNFS	20.6	26.9	88.5	48.1	33.1	46.0	3.3	29.0	-6.3	-34.4	51.3
Total Expenditures	103.5	113.0	155.3	137.6	125.5	138.3	3.8	11.7	0.8	-10.8	15.1
Total Consumption	92.3	98.6	112.9	109.4	106.8	116.8	3.6	9.2	1.8	-5.5	13.7
Private Consumption	84.0	79.1	97.3	84.7	86.1	93.7	1.4	10.0	0.7	-1.9	13.6
General Government	8.3	19.5	15.6	24.6	20.7	23.1	16.9	4.9	7.4	-17.9	14.4
Gross Domestic Investment	11.2	14.3	42.4	28.3	18.7	21.5	5.6	23.4	-3.0	-31.5	22.6
Fixed Investment	..	11.3	43.1	23.5	14.3	19.1	..	33.3	-4.9	-39.5	43.1
Changes in Stocks	..	3.0	-0.7	4.8	4.4	2.4	..	..	..	..	..
Gross Domestic Saving	7.7	1.4	-12.9	-9.4	-6.8	-16.8	1.5	..	..	..	..
Net Factor Income	-0.1	0.3	-0.1	-5.1	-6.0	-7.2	..	..	..	..	..
Net Current Transfers	0.0	0.5	9.4	3.4	2.2	2.2	..	..	..	..	..
Gross National Saving	7.6	2.2	-3.6	-11.0	-10.6	-21.8	5.4	..	..	..	..

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	81	109	136	168	165	170	3.5	5.8	2.5	-1.3	2.9
Capacity to Import	13	12	40	18	12	13	1.1	23.0	-13.1	-31.0	10.8
Terms of Trade Adjustment	-3	-5	-3	0	0	0	..	..	..	..	..
Gross Domestic Income	78	103	134	168	165	170	3.5	6.8	2.3	-1.6	3.2
Gross National Product	81	109	136	159	155	158	3.5	5.8	1.6	-2.3	1.5
Gross National Income	78	104	133	159	155	158	3.5	6.8	1.4	-2.6	1.9

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	9.0	57.5	78.0	100.0	181.9	..	1.4	18.4	45.0	81.9	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	12.8	57.4	76.6	100.0	173.5	364.2	3.8	19.3	38.6	73.5	109.9
Implicit Expenditures Defl.	13.4	53.4	74.3	100.0	175.1	362.0	3.9	18.4	38.4	75.1	106.7

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.6	2.6	2.9
Labor Force	..	..	..
Gross Natl. Income p.c.	0.8	4.1	-1.5
Private Consumption p.c.	-1.2	7.2	-2.1
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.0	5.0	-2.5
Marginal Savings Rates:			
Gross National Saving	-15.3	-75.1	-36.9
Gross Domestic Saving	-19.5	-80.4	7.6
ICOR (period averages):	..	4.8	12.5

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	81.1	78.1	75.5	..
Industry	6.3	7.5	8.4	..
Services	12.6	14.4	16.0	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.MEAT	128.9	121.9	97.1	100.0	35.9	41.2	102	66	62	59	22	26
X.FOOD.BANANA	46.7	59.8	73.1	100.0	96.9	93.1	8	13	17	21	24	25
X.FOOD.FISH	..	..	..	..	..	..		..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	25	14	15	14	13	14
Total Exports FOB	114.2	108.6	95.4	100.0	60.2	64.6	134	93	95	94	58	65
F. Merchandise Imports												
Food	..	..	..	..	..	..	130	100	114	111	69	118
Fuel and energy	83.1	73.7	197.3	100.0	100.0	140.4	17	13	18	12	9	16
Other Consumer Goods	72.7	76.1	68.9	100.0	43.5	74.8	8	6	6	8	4	7
Other Intermed. Goods	225.0	237.4	459.9	100.0	112.8	182.8	2	2	3	1	1	2
Capital goods	137.4	111.1	101.6	100.0	55.6	94.6	304	236	253	273	163	276
Total Imports CIF	106.7	92.9	100.0	100.0	60.8	181.4	461	357	393	404	247	419

G. Merchandise Terms of Trade/1	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	22.0	55.3	83.6	100.0	172.8	357.7
Merch. Imports Price Index	14.3	47.2	72.2	100.0	179.7	357.4
Merch. Terms of Trade	154.1	117.2	115.8	100.0	96.2	100.1

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	200	141	117	107	79	88
Merchandise (FOB)	134	93	95	94	58	65
Non-Factor Services	66	48	22	13	21	23
Imports of Goods & NFS	534	460	493	492	346	522
Merchandise (FOB)	392	304	334	344	210	356
Non-Factor Services	142	156	159	149	136	166
Resource Balance	-334	-319	-376	-385	-267	-435
Net Factor Income	-1	-49	-60	-52	-62	-81
(interest per DRS)	2	3	4	4	3	4
Net Current Transfers	57	20	37	35	23	25
(workers' remittances)	57	20	37	35	23	25
Curr. A/C Bal. before Off. Transf.	-278	-348	-400	-402	-306	-491
Net Official Transfers	143	215	305	343	217	317
Curr. A/C Bal. after Off. Transf.	-135	-133	-95	-59	-89	-174
Long-Term Capital Inflow	87	95	60	20	-23	4
Direct Investment	..	..	..	..	..	..
Net LT Loans (DRS data)	106	111	103	71	46	63
Other LT Inflow (Net)	-19	-16	-43	-51	-69	-59
Total Other Items (net)	21	40	11	26	185	215
Arrears	..	-98	80	-19	117	159
Debt Relief	..	152	..	108	58	..
Errors and Omissions	21	-14	-69	-64	10	56
Changes in Net Reserves	27	-2	24	14	-73	-45
Net Credit from the IMF	4	34	7	9	-51	-43
Other Reserves Changes	23	-36	17	5	-22	-1
As Share of GDP:						
Resource Balance	-55.3	-36.3	-40.3	-37.6	-25.5	-38.3
Interest Payments	0.3	0.3	0.4	0.4	0.3	0.4
Current Account Balance	-46.0	-39.6	-42.8	-39.3	-29.3	-43.3
Memorandum Items:						
Reserves excl. Gold (mil. US$)	15	3	13	7	15	..
Reserves incl. Gold (mil. US$)	26	9	20	17	23	..
Official X-Rate (LCUs/US$)	6.29	39.49	72.00	105.18	170.45	490.67
Index Real Eff. X-R Base 1980	100.00	92.50	61.00	51.45	63.74	39.39
GDP (millions of current US$)	604	878	934	1,023	1,046	1,134

I. Budget (specify level)	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Current Receipts	8.2	6.0	7.8	6.0	5.7	5.3	26.2	80.0	6.6	62.1	103.3
Current Expenditures	12.6	11.0	14.2	15.5	14.1	15.7	31.9	79.1	50.8	56.3	140.3
Current Budget Balance	-4.4	-5.0	-6.4	-9.5	-8.4	-10.4	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Development Expenditures	5.9	10.8	17.0	19.8	14.5	25.8	41.2	118.3	61.9	25.6	283.3
Adjustments	..	1.2	2.3	0.8	4.5	6.5	..	..	..	..	..
Overall Deficit	-10.3	-14.6	-21.1	-28.5	-18.6	-29.7	..	..	..	..	..
Official Grants	2.8	8.4	15.2	17.5	12.3	26.4	57.7	149.6	59.4	20.3	364.4
External Borrowing (net)	3.5	5.0	6.0	5.7	4.2	5.3	34.8	67.6	29.7	28.3	168.9
Domestic Non-Bank Financing	0.1	0.2	-0.7	0.5	..	-1.0	..	..	..	..	..
Domestic Bank Financing	3.9	1.0	0.5	4.9	2.0	-1.0	..	-24.9	1144.6	-28.3	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	..	111	103	70	46	13	588	1,419	1,559	1,739	1,754	1,770
Official Creditors	93	104	103	71	46	13	560	1,329	1,467	1,692	1,719	1,732
Multilateral	45	62	59	54	32	43	159	410	488	608	619	662
of which IBRD	..	..	..	..	..	..	..	..	..	..	..	..
of which IDA	10	38	47	39	28	55	72	186	239	298	317	373
Bilateral	48	42	45	16	14	-30	401	919	979	1,084	1,100	1,070
Private Creditors	..	7	0	0	0	0	28	90	92	47	34	38
Suppliers	..	..	0	0	..	..	28	32	32	3	3	..
Financial Markets	..	7	..	..	..	..	..	58	61	44	31	..
Private Non-guaranteed	..	..	..	..	..	..	0	0	0	0	0	0
Total LT/1	..	111	103	70	46	13	588	1,205	1,344	1,435	1,486	1,619
IMF Credit	..	19	-11	-27	-44	-46	18	160	156	182	183	182
Net Short-Term Capital	..	13	2	25	38	..	51	60	88	92	116	125
Total incl. IMF & Net ST	..	143	94	68	40	..	664	1,632	1,803	2,006	2,035	2,042

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	12.29	15.44	17.81	20.75	21.37	23.04
3. IBRD+IDA as % of Total	12.29	15.44	17.81	20.75	21.37	23.04
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	..	2.28	2.32	3.24	3.33	3.43
3. IBRD+IDA as % of Total	..	2.28	2.32	3.24	3.33	3.43
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	854.15	1148.29	1340.15	1874.61	1849.84
2. IMF Credit/Exports	..	113.54	133.08	169.66	230.73	208.10
3. Short-Term Debt/Exports	..	42.52	75.21	85.95	146.34	142.86
4. LT+IMF+ST DOD/Exports	..	1156.63	1541.03	1874.07	2567.18	2333.71
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	97.39	137.28	143.92	140.18	142.02	142.73
2. IMF Credit/GDP	2.96	18.25	16.68	17.75	17.48	16.06
3. Short-Term Debt/GDP	8.45	6.83	9.43	8.99	11.09	11.02
4. LT+IMF+ST DOD/GDP	110.01	185.90	193.14	196.03	194.49	180.07
Debt Service /Exports						
1. Public & Guaranteed LT	..	60.25	91.79	96.35	138.03	149.51
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	..	60.25	91.79	96.35	138.03	149.51
4. IMF Repurchases+Serv. Chgs.	..	20.68	38.56	43.20	70.73	67.57
5. Interest only on ST Debt	..	0.30	0.25	0.21	0.34	..
6. Total (LT+IMF+ST Int.)	..	81.23	130.60	139.76	209.10	..

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Sri Lanka

Sri Lanka is a striking case of an economy which was well ahead of other developing countries in the 1950's but which did not maintain its position over time. In the 1950's, Sri Lanka's per capita income was about half of Japan's or Malaysia's and much higher than Korea's or Thailand's. The living standards of its population in terms of life expectancy at birth, school enrollment ratio, literacy, and infant mortality rates, were among the highest in the developing world. Four decades later, the country's per capita income is less than 5 percent that of Japan, less than a fifth that of Malaysia, and well below those of South Korea and Thailand. In addition to slow growth, the country has been confronted with large fiscal deficits, a difficult balance of payments position and serious political disturbances that the government sees as resulting mostly from increasing poverty and chronically high unemployment.

There are, fortunately, signs that political violence may be abating. Taking this as a window of opportunity, the government has set out to implement measures to address constraints to growth; optimism regarding the future of the country has started to emerge. But this optimism has to be guarded carefully as the tasks ahead remain enormous for the government to sustain the political stability and the pace of economic reforms.

High unemployment and macroeconomic imbalances have developed gradually since Independence in 1948 as a consequence of an over-extended public sector which absorbed a large share of the country's resources to: (i) finance large and capital intensive investments to support food production to the neglect of plantation based export crops of tea, rubber and coconut; (ii) promote industrial growth by establishing public enterprises and protecting the domestic market against foreign competition; and (iii) increase the role of the government in the economy by creating public enterprises and making extensive use of price controls, private investment licensing and restrictions on trade, both external and domestic.

In addition, up to 1977, private initiatives were mistrusted and often penalized. The result has been that Sri Lanka has not made the transition to an urban based industrialized and export oriented economy which can provide ample employment opportunities and also maintain internal and external balances. As this strategy failed to promote growth and employment commensurate with the costs involved, it created additional pressures on the budget to fulfill the expectations of a highly educated population. Pressures to increase household consumption levels thus became the source of an unsustainable burden on the budget. At their peak in the late 1970s, food subsidies alone reached 5-6 percent of GDP. Furthermore, to diffuse popular discontent of a well educated labor force with high employment expectations, the government was pressured to increase public sector employment rapidly. The public sector became the largest employer in the economy, thus creating additional pressures on the budget. Since the early 1960's, public sector deficits have never been below 6-8 percent of GDP.

The unsustainability and modest results of this development approach became evident in the 1970s and a major reversal in policies took place in 1977, when the government decided to change the economic philosophy that had dominated decision-making for decades and to limit the role of the state in the economy, increase that of the private sector, and, more generally, increase the role of market forces in the allocation of resources. Sweeping deregulations affected all sectors of the economy. Price controls were eliminated, barriers to entry in industry were removed, foreign investment was encouraged; domestic trade was opened to the private sector and financial markets were liberalized. Deregulation was particularly noteworthy in the foreign sector. Quota restrictions were replaced by tariffs, the multiple exchange rate system was replaced by a managed float, the new exchange rate was set at a realistic level, and controls on foreign exchange transactions were eased considerably. The new policies brought about a remarkable improvement in economic performance. The GDP growth rate, at only 3 percent per annum during 1970-77, increased to close to 7 percent in 1978-80 and remained at 5 percent in 1981-85, exports diversified very rapidly, and with the liberalization of prices in agriculture and the removal of barriers restricting the entry of private traders, rice production grew at over 5 percent per annum during 1978-86 thus allowing the country to achieve near-self-sufficiency. Higher growth and overseas employment of Sri Lankans led to a substantial reduction in the rate of unemployment from a high of 22 percent prevailing before liberalization to 12 percent in the early 1980s.

Recent Economic Developments

There has been, however, a substantial deterioration in economic performance in the recent past. In contrast with the unprecedented economic growth after 1977, output growth slowed, to 4 percent in 1986 and less than 3 percent in 1987-89; unemployment has risen to 16 percent of the labor force and, large macro-economic imbalances continued. Chronically high fiscal deficits have pushed up interest payments on the government debt to 5 percent of GDP. The current account deficit on the balance of payments reached 8 percent of GDP in 1988 and 10 percent in 1989. At close to 30 percent of exports, the debt service ratio reached an all time high in 1987-89. Inflation has escalated from less than 2 percent in 1985 to 8-10 percent in 1986-87 and 12-15 percent in 1988-89.

There are three principal causes for the country's economic problems. The first is related to structural constraints to growth that were created over several decades of controls and extensive government intervention in the economy, prior to liberalization in 1977. While that liberalization led to major efficiency gains it failed to (i) reduce the size of the public sector which still employs one-half of the country's non-agricultural labor force (and one-fifth of the labor force in agriculture) and accounts for close to half of GDP; (ii) rationalize public expenditure programs which, in addition to being large, have yielded low economic returns; (iii) reorient the industrial sector sufficiently toward export markets which have the largest potential for growth.

Second, the structural constraints to growth have been aggravated by macroeconomic imbalances. After liberalization in 1977, and with strong donor support, the government undertook a massive public investment program (concentrating on irrigation, power and housing) that peaked at 15 percent of GDP in 1980-82 and then declined gradually to 12-13 percent of GDP in 1983-87. In spite of a relatively high tax-GDP ratio of 20 percent, the fiscal deficit rose to 18 percent of GDP in 1980-82, before gradually falling to 11-12 percent in 1983-87. This expansion in aggregate demand led to increased inflation and, because of an insufficiently flexible exchange rate, led in turn to a gradual appreciation of the real exchange rate in the first half of 1980s. This appreciation has impeded a more vigorous development and diversification of the export sector and contributed to a current account deficit which averaged 16 percent of GDP in 1980-82 - with a gradual decline to around 10 percent of GDP thereafter. A substantial share of this deficit was financed through commercial borrowing up until 1984; this has been the main reason for the rapid increase in the debt service ratio. Thus, the good growth performance after liberalization can be explained by a once-for-all gain in efficiency that followed the removal of regulations and market distortions prevailing before 1977, complemented by an expansionary fiscal policy. However, at the same time, a large share of the country's resources was diverted from the private sector and absorbed in public investment projects with questionable rates of return, thus, this growth could not be sustained.

Finally, the third cause for the country's problems has been the delay in adjusting to increasingly difficult economic conditions. The outbreak of the ethnic conflict in 1983, as well as growing political violence since 1987 and elections in 1988 are major factors. In addition to the burden they have put on the budget and on the balance of payments, they have also weakened the government's capacity to respond. Throughout the 1980s, the annual budget speeches reiterated the need to stabilize the economy; a first attempt at stabilization was made in 1981-82. The outbreak of the ethnic conflict in mid-1983, however, complicated decision making, and the government has found it increasingly difficult to translate its views into policy actions. Furthermore, from 1978 to 1985 GDP growth was above 5 percent per year. Until shortly after the outbreak of the ethnic conflict, Sri Lanka could borrow on commercial terms in the international market, and, from 1983 to 1984, the price of tea was at a record high. Thus, the adjustment could be postponed.

By 1986, however, the deterioration in the economy had become evident. The tea boom was over and, in spite of the decline in oil prices, the external current account deficit continued to be high at 9 percent of GDP. The growth rate of GDP slowed to under 4 percent, unemployment rose to about 17 percent, and gross official reserves declined to less than 2 months of imports. In November 1986, the government announced a three year stabilization program consisting, essentially, of a reduction in public expenditures from 33 percent of GDP in 1986 to about 29 percent by 1989, the maintenance of fiscal revenues at 20 percent of

GDP and the adoption of a more realistic exchange rate policy.

Next, during the course of 1987, the Cabinet approved the reports and recommendation of three high level committees—the Administrative Reform Committee (ARC), the Presidential Tariff Committee (PTC), both appointed by the President in 1986; and the Industrial Policy Committee (IPC), appointed by the Cabinet in 1984. The recommendations of these committees provided the basis for a comprehensive program. The key objectives of the macroeconomic framework were: (i) to restore growth to a sustainable 4.5-5 percent that should help reduce the unemployment rate; (ii) to reduce inflation to about 5 percent, (iii) to reduce the current account deficit in the balance of payments from 8-9 percent of GDP in 1986-87 to about 6 percent of GDP and, (i) to reduce the fiscal deficit from 12 percent in 1985-86 to 11 percent of GDP in 1987, 11 percent in 1988, 10 percent in 1989 and 9 percent in 1990.

The adjustment program also included three key structural reforms. The first was related to the reorganization of the central government with a view to reducing the number of ministries by more than half and staff by at least 20 percent. The second was related to a restructuring of public expenditures with a view to eliminating wasteful expenditure programs and increasing the efficiency of remaining programs. Finally, the third structural reform of the adjustment program consisted of changes in the country's industrial policies e.g. reductions in tariffs and privatization of public enterprises, aimed at accelerating industrial growth and increasing the export orientation of the manufacturing sector.

The implementation of the 1987-90 adjustment program was relatively successful in its first year when the trade regime was liberalized substantially, the exchange rate was devalued in real terms and macroeconomic imbalances were reduced. Macroeconomic developments in 1988, however, fell considerably short of expectations. The government announced Presidential and Parliamentary elections, and the budget came under severe pressures as the Cabinet introduced a series of measures aimed at increasing the government's popularity, such as wage increases, and rice and wheat subsidies. Fiscal and monetary targets were exceeded, foreign exchange reserves dwindled, and little progress was achieved in restructuring the economy during 1988. In addition, decisions and promises made during the election campaign, particularly those related to the poverty alleviation program, are constraining the new government's freedom of action.

As a result of the decisions taken in the run-up to election, the fiscal deficit increased to 15.6 percent of GDP in 1988 and, in an attempt to contain inflation, the government discontinued the flexible exchange rate policy it had been following since 1986. Capital inflows were insufficient to offset the consequent deterioration in the current account of the balance of payment and gross official reserves declined to about three weeks of imports in August 1989—the lowest level in a decade—in spite of heavy central bank short term borrowing. As it became evident that the country was heading toward a foreign exchange crisis, the government began implementing in September a comprehensive adjustment program. As a first step, the government reduced subsidies and took tax and expenditures cuts measures. This reduced the fiscal deficit—which would have reached 15 percent of GDP without the measures—to 10 percent of GDP. Next, it adjusted the exchange rate to Rs.40/US$, from Rs.35 in September. Finally, interest rates on Treasury bills were raised to close to 20 percent per year, up from 14 percent in July. On the structural front, the new government policies are essentially those previously outlined but with a renewed emphasis on privatization. Major initiatives include privatization of a number of public manufacturing enterprises, commercialization/privatization of the state owned tea and rubber estates, and privatization of the state owned bus company which at present supplies half of the total demand for bus transportation. Finally, the government has decided to restructure its costly poverty alleviation program, with a view to reducing its impact on the budget and improving its targeting.

The economy responded rapidly to the measures implemented since September 1989; net official reserves increased rapidly as confidence in the economy was restored. For the medium term, the government is firmly committed to adhere to the macroeconomic framework whereby the fiscal deficit should be gradually reduced to 8 percent of GDP by 1992 and the current account deficit of the balance of payments to 6 percent. Structural measures are, likewise, being implemented.

Sri Lanka's debt service ratio declined from 29 percent (24 percent) of exports of goods and services (current receipts) in 1988 to about 24 percent (21 percent) in 1989. The Bank Group, as of the end of 1988, accounted for an estimated 17 percent of total long-term debt outstanding and disbursed and 6 percent of the total debt service.

SRI LANKA

Mid-1988 Population (mils.)	17
1988 Per Capita GNP in US$:	420

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rates(% per annum) (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	4.6	5.4	4.4	2.7	2.1
Net Indirect Taxes	1.3	2.6	6.4	11.2	10.2	10.8	..	..	..	..	..
Agriculture	27.8	26.6	25.8	23.9	23.6	23.2	2.7	3.8	2.7	2.1	-1.1
Industry	21.0	24.7	27.7	24.4	24.0	23.9	7.3	4.9	4.4	4.2	3.4
(of which Manufacturing)	16.5	17.0	16.6	14.2	13.8	13.6	5.5	3.1	6.2	4.7	4.4
Services	49.8	46.1	40.1	40.5	42.2	42.1	3.5	5.4	5.3	2.2	3.2
Resource Balance	0.6	-1.2	-22.6	-10.3	-10.5	-9.4	..	..	..	..	..
Exports of GNFS	37.9	24.3	32.2	24.8	25.5	26.7	0.3	2.9	0.5	3.3	8.4
Imports of GNFS	37.3	25.6	54.8	35.1	36.0	36.2	-1.2	11.0	-0.5	2.0	-2.5
Total Expenditures	99.4	101.2	122.6	110.3	110.5	109.4	3.9	8.3	3.6	2.4	-0.8
Total Consumption	87.4	87.5	88.8	85.6	86.2	86.8	3.3	5.3	5.0	3.6	-0.6
Private Consumption	74.1	76.5	80.3	75.9	76.5	77.2	3.5	5.9	4.5	3.7	-1.0
General Government	13.3	11.0	8.5	9.8	9.6	9.6	2.3	1.0	9.1	2.7	2.3
Gross Domestic Investment	12.0	13.7	33.8	22.9	22.3	21.4	7.9	21.2	-0.8	-2.4	-1.4
Fixed Investment	12.2	13.5	31.3	22.9	22.0	21.2	6.5	22.6	-0.3	-3.2	-1.1
Changes in Stocks	-0.2	0.2	2.4	0.1	0.3	0.2	..	..	..	..	..
Gross Domestic Saving	12.6	12.5	11.2	12.6	11.8	11.9	13.7	16.2	3.8	-5.2	8.6
Net Factor Income	-0.7	-1.0	-0.6	-2.2	-2.3	-2.3	..	..	..	..	..
Net Current Transfers	-0.3	0.0	3.4	4.6	4.5	4.2	..	..	..	..	..
Gross National Saving	11.7	11.5	13.9	15.0	14.0	13.6	..	20.7	3.2	-6.5	5.7
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	69	101	146	200	206	210	4.6	5.4	4.4	2.7	2.1
Capacity to Import	40	34	43	50	51	52	-1.0	6.9	1.7	2.4	1.7
Terms of Trade Adjustment	2	-4	-3	0	0	-4	..	..	..	..	..
Gross Domestic Income	71	97	143	200	205	206	4.1	6.7	4.8	2.5	0.5
Gross National Product	68	100	145	196	201	205	4.6	5.5	4.2	2.4	2.1
Gross National Income	70	96	142	196	200	201	4.0	6.8	4.7	2.2	0.4

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	48.8	86.0	92.8	100.0	114.0	127.2	5.1	8.1	10.5	14.0	11.6
Wholesale Prices (IFS 63)	55.3	90.9	88.2	100.0	117.8	..	..	14.7	8.5	17.8	..
Implicit GDP Deflator	45.5	86.7	91.9	100.0	110.2	121.9	4.9	12.8	11.2	10.2	10.6
Implicit Expenditures Defl.	47.1	87.2	92.6	100.0	110.8	124.9	5.5	11.7	10.7	10.8	12.7

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.0	1.7	1.5
Labor Force	..	..	..
Gross Natl. Income p.c.	2.0	5.0	3.1
Private Consumption p.c.	1.5	4.1	3.0
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	-0.3	2.0	-0.1
Marginal Savings Rates:			
Gross National Saving	11.4	19.9	14.9
Gross Domestic Saving	12.2	7.8	13.2
ICOR (period averages):	..	3.6	6.7

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	56.0	54.7	53.4	..
Industry	13.9	14.3	13.9	..
Services	30.1	31.1	32.7	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.BEV.TEA	..	..	..	..	..	..	373	442	316	365	387	380
X.FUEL	..	..	..	..	..	..	189	143	106	95	71	62
X.OAGRI.RUBBER	113.6	112.5	103.4	100.0	93.2	81.2	157	94	103	98	117	87
X.MAN.TEXT	..	..	..	..	..	..	112	..	350	461	474	490
Manufactures	..	..	..	..	..	..	153	383	112	148	189	238
Residual	..	..	..	..	..	..	81	241	242	240	234	305
Total Exports FOB	72.5	87.7	97.8	100.0	103.6	112.3	1,065	1,303	1,229	1,407	1,472	1,561
F. Merchandise Imports												
Food	98.0	123.5	115.7	100.0	106.9	127.5	423	319	296	311	409	503
Fuel and energy	77.5	72.9	92.2	100.0	106.2	98.6	490	404	258	285	242	233
Other Consumer Goods	62.5	73.1	99.4	100.0	97.5	94.4	293	496	505	212	227	217
Other Intermed. Goods	59.9	85.6	98.2	100.0	114.4	93.8	226	308	401	909	983	887
Capital goods	92.6	101.9	100.9	100.0	75.0	67.5	414	434	488	385	380	334
Total Imports CIF	75.8	93.9	97.7	100.0	102.3	99.7	1,846	1,961	1,948	2,102	2,241	2,243

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	104.5	105.6	89.3	100.0	101.0	102.5
Merch. Imports Price Index	115.9	99.3	94.8	100.0	104.2	113.1
Merch. Terms of Trade	90.1	106.3	94.1	100.0	96.8	90.6

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,293	1,561	1,509	1,721	1,806	1,891
Merchandise (FOB)	1,062	1,316	1,204	1,393	1,473	1,548
Non-Factor Services	231	245	305	328	333	343
Imports of Goods & NFS	2,196	2,290	2,261	2,398	2,564	2,572
Merchandise (FOB)	1,845	1,833	1,762	1,865	2,018	2,021
Non-Factor Services	351	457	499	533	546	551
Resource Balance	-903	-729	-752	-677	-758	-681
Net Factor Income	-26	-127	-138	-141	-172	-165
(interest per DRS)	33	116	121	127	125	121
Net Current Transfers	136	266	293	312	319	300
(workers' remittances)	152	292	324	350	357	338
Curr. A/C Bal. before Off. Transf.	-793	-589	-597	-507	-611	-546
Net Official Transfers	138	175	175	180	207	174
Curr. A/C Bal. after Off. Transf.	-655	-414	-422	-327	-404	-372
Long-Term Capital Inflow	208	346	366	268	269	211
Direct Investment	43	25	29	58	43	27
Net LT Loans (DRS data)	221	340	340	187	196	486
Other LT Inflow (Net)	-56	-18	-4	23	29	-302
Total Other Items (net)	165	-47	-55	-18	11	74
Net Short Term Capital	149	-4	-26	100	-37	113
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	16	-42	-29	-119	49	-38
Changes in Net Reserves	281	115	111	77	124	86
Net Credit from the IMF	-40	-1	-35	-53	108	27
Other Reserves Changes	321	115	146	130	16	59
As Share of GDP:						
Resource Balance	-22.5	-12.0	-11.5	-10.0	-10.6	-9.6
Interest Payments	0.8	1.9	1.9	1.9	1.7	1.7
Current Account Balance	-19.7	-9.7	-9.2	-7.5	-8.6	-7.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	246	451	353	279	222	244
Reserves incl. Gold (mil. US$)	283	472	377	310	248	269
Official X-Rate (LCUs/US$)	16.53	27.16	28.02	29.44	31.81	36.05
Index Real Eff. X-R Base 1980	100.00	116.72	103.85	92.96	90.85	86.13
GDP (millions of current US$)	4,024	6,078	6,517	6,800	7,127	7,104

I. Budget (specify level)	Share of GDP (%)						Growth Rates				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980-84*	*1986*	*1987*	*1988*	*1989*
Current Receipts	19.6	22.3	20.8	20.8	18.7	21.6	..	2.7	11.5	-0.9	29.4
Current Expenditures	18.5	21.2	19.3	20.0	20.7	22.0	..	4.0	8.8	2.4	19.2
Current Budget Balance	1.1	1.1	1.5	0.8	-2.0	-0.4	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	23.2	12.8	13.7	12.7	10.3	7.9	..	7.9	0.5	0.3	-14.1
Adjustments	..	..	..	..	3.4	1.8	..	..	..	..	..
Overall Deficit	-22.1	-11.7	-12.2	-11.9	-15.6	-10.0	..	..	..	..	..
Official Capital Grants	3.9	2.0	2.1	2.4	3.0	2.6	..	13.5	9.1	40.9	-0.3
External Borrowing (net)	5.3	4.4	5.0	3.8	3.2	2.4	..	27.5	-26.6	24.0	-39.4
Domestic Non-Bank Financing	12.9	2.4	3.4	3.4	5.4	5.5	..	..	..	..	47.9
Domestic Bank Financing	..	2.9	1.7	2.2	4.1	-0.4	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions)						Debt Outstanding & Disbursed (US$ millions)					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Public & Publicly Guar. LT	219	293	338	196	202	188	1,227	2,837	3,436	4,066	4,139	4,511
Official Creditors	135	297	331	250	288	218	1,087	2,167	2,730	3,346	3,522	4,012
Multilateral	27	110	124	131	117	89	216	695	853	1,051	1,139	1,308
of which IBRD	-2	1	-2	0	2	2	31	61	72	89	83	82
of which IDA	20	73	85	83	55	51	98	397	498	619	658	705
Bilateral	108	187	207	119	171	129	872	1,472	1,877	2,295	2,383	2,704
Private Creditors	84	-4	8	-54	-86	-29	140	670	706	720	617	499
Suppliers	-3	8	36	29	-4	-4	47	44	92	151	142	123
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	2	47	2	-9	-6	12	3	99	96	117	113	138
Total LT	221	340	340	187	196	200	1,230	2,935	3,532	4,182	4,253	4,649
IMF Credit	29	-53	-84	-116	97	27	391	397	347	277	359	368
Net Short-Term Capital	149	-4	-26	100	-37	113	220	206	185	273	577	329
Total incl. IMF & Net ST	399	283	230	172	256	340	1,841	3,538	4,063	4,732	5,189	5,346

Bank and IDA Ratios	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Share of Total Long-Term DOD						
1. IBRD as % of Total	2.50	2.09	2.05	2.13	1.96	1.75
2. IDA as % of Total	7.96	13.52	14.11	14.79	15.47	14.95
3. IBRD+IDA as % of Total	10.45	15.61	16.16	16.91	17.43	16.69
Share of LT Debt Service						
1. IBRD as % of Total	5.96	4.08	4.38	3.50	4.09	3.39
2. IDA as % of Total	0.95	1.45	1.67	1.84	2.24	2.44
3. IBRD+IDA as % of Total	6.91	5.53	6.05	5.34	6.33	5.83
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	82.48	151.53	185.73	195.49	190.56	206.08
2. IMF Credit/Exports	26.21	20.48	18.24	12.93	16.10	16.09
3. Short-Term Debt/Exports	14.73	10.65	9.71	12.77	25.85	13.87
4. LT+IMF+ST DOD/Exports	123.42	182.66	213.67	221.20	232.51	236.05
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	30.58	48.29	54.19	61.51	59.67	66.34
2. IMF Credit/GDP	9.72	6.53	5.32	4.07	5.04	5.18
3. Short-Term Debt/GDP	5.46	3.39	2.83	4.02	8.10	4.47
4. LT+IMF+ST DOD/GDP	45.76	58.21	62.34	69.60	72.80	75.99
Debt Service /Exports						
1. Public & Guaranteed LT	5.61	11.05	13.44	14.77	16.16	14.49
2. Private Non-guaranteed LT	0.01	0.70	0.74	0.74	1.73	1.59
3. Total Long-Term Debt Service	5.62	11.76	14.17	15.50	17.89	16.08
4. IMF Repurchases+Serv. Chgs.	3.98	3.95	6.01	6.28	5.24	3.86
5. Interest only on ST Debt	2.40	0.81	0.75	1.37	1.17	0.97
6. Total (LT+IMF+ST Int.)	12.00	16.52	22.08	23.16	24.30	20.91

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Sudan

Sudan, with an area of 2.5 million square kilometers, is the largest country in Africa. It has a population of about 24 million and a per capita GNP estimated at about US$420 (Atlas methodology) in 1988. Much of the country is very sparsely populated. About two-thirds of the total land area is suitable for crop or pastoral production. The economy is heavily dependent on exports of cotton, with livestock, groundnut, sesame and gum arabic as minor exports. The manufacturing sector is relatively small, and the country's infrastructure is weak.

Two background issues with particular significance to economic developments are Sudan's civil war and its large external debt. After about a decade of peace following the Addis Ababa accord, civil war resumed in Sudan in 1983. In addition to the human suffering directly caused by the war, economic development has also been adversely affected. In particular, exploration activities on the large petroleum deposits discovered in the southwestern part of the country have had to be shut down due to the war. Sudan's external debt is estimated to be around US$13 billion, much of which are arrears.

Economic Performance

Sudan is currently facing an extremely difficult economic situation, which is the consequence of civil war, economic mismanagement, three years of drought between 1982 and 1985, and a major flood in 1988 which caused severe damage to physical infrastructure.

The seeds of economic mismanagement were sown during the 1970s when an attempt was made to boost the economy by nationalization and substantial public investments financed by foreign borrowing. The public sector, with its limited implementation capacity, was unable to effectively manage these investments, which began losing money and requiring substantial financial support. Sizeable budgetary and external account deficits emerged. The situation was aggravated by the structure of incentives emanating from the controls over prices, exports, imports and investment, and also from an overvalued exchange rate and distortionary trade taxes. These factors hampered private investment in efficient productive activities and resulted in a fragile and narrowly based economy. A largely inefficient parastatal sector of some 200 enterprises now accounts for nearly 50 percent of GDP and 75 percent of exports. The economy has become heavily service oriented (about 50 percent of GDP), while the manufacturing sector accounts for only 8 percent of GDP, despite large investments during the 1970s. Agriculture now accounts for around 35 percent of GDP. Exports, along with official remittances from workers abroad, have been discouraged by the structure of incentives. The policies have also had the indirect effect of encouraging transactions in the parallel market, which now accounts for a substantial part of economic activity in the country.

Between 1979 and 1984, the government entered into a series of agreements with the IMF, and received adjustment credits from IDA in 1980 and 1983. Most of these attempts failed because of the inability to sustain demand management measures. In 1983, however, the government did successfully implement measures including a substantial devaluation and improved producer prices and payment incentives for cotton. As a result, cotton production increased sharply above the low levels of 1981. Unfortunately, these successes faded in 1984 amidst the political turmoil that marked the last days of the Nimeiri government.

Economic performance has been poor for over a decade. GDP per capita declined at an annual average rate of about 0.8 percent between 1976 and 1989. (The population growth rate is about 2.9 percent a year.) Agricultural output per capita declined at an average annual rate of -1.6 percent. Poverty and malnutrition are widespread, and traditional food security structures and the health care delivery system have virtually collapsed. The real value of both exports and imports have sharply decreased. Severe shortages of essential production inputs and consumer goods are commonplace. Investment as a proportion of GDP has decreased significantly, and the physical infrastructure is in a serious state of disrepair. National savings have declined sharply, with public savings being substantially negative throughout the past decade. The government budget deficits have averaged about 11 percent of GDP since the beginning of the eighties, and about 13 percent over the last five years. The financing of these deficits and of parastatal losses have placed severe demands on the banking system, leading to rapid monetary expansion and high levels of inflation. Over most of the 1980s the rate of inflation was around 30 percent, but in 1989 it jumped to about 70 percent, and is expected to be at least as high in 1990.

Recent Efforts at Reform

The Bank and the IMF resumed macroeconomic policy dialogue with Sudan in late 1987 after a three-year break. Sudan adopted a one-year Shadow Program (Annual Program of Action 1987/88)[1]. Implementation of the program was good in the first six months, but in the latter half of the fiscal year the government did not meet the targets, in large part due to spending to support the war in the south. From late 1987 to May 1988, Bank and IMF staff worked closely with Sudanese officials to produce a program for economic adjustment, the main elements of which are reflected in the government's Four-Year Salvation and Recovery Plan, approved by Parliament in June 1988. Implementation was stalled by lack of agreement on exchange rate adjustment. The floods which occurred in August 1988 further delayed implementation of the plan. In October 1988 the government introduced a two-tier exchange rate system of an official rate and commercial rate (the plan called for a unified flexible rate) and made some marginal relaxations in the controls on exports.

In December 1988 the government announced revenue measures, including a large price increase for sugar, to finance a substantial wage increase for public sector employees. There was a public outcry and civil disturbances. The government reduced the price increases but implemented the wage increases, resulting in a sharply increased budget deficit. Subsequently, the country was embroiled in political turmoil with the coalition government being reconstituted twice in disputes over the approach to seeking an end to the civil war. No serious economic measures were taken and the financial situation deteriorated further, mainly due to vast expansion in bank financing of the fiscal deficit. The inflation rate shot up, reaching 80 percent in the second quarter of 1989. Meanwhile the parallel market exchange rate reached 20 Sudanese pounds to a U.S. Dollar, while the commercial rate was set at 12 and the official rate at 4.5.

Following a military coup, a new government, led by Lt. Gen. Omer Al Bashir, took power on June 30, 1989. In the first few weeks after the coup, the new government tightened up enforcement of price controls, eliminated operations of the self-finance import schemes which had been the only source of industrial and commercial imports for the private sector, and made the holding and trading of foreign currency by Sudanese a capital offense. Some of the tentative steps taken previously toward economic liberalization were reversed. This has shaken business confidence, brought about further shortages in essential commodities, and virtually paralyzed trading operations.

Prospects for Reform

Although there are signs that the authorities are beginning to realize that these measures were counterproductive, it appears that the government would take time to consider embarking on a comprehensive reform program of the type which would represent a fundamental break with the policies of the past.

The peace process continues to be stalemated. Although transportation of relief supplies to the South is permitted, the situation is fragile. In the absence of the government embarking on a comprehensive adjustment program and in view of the concerns of the international community about the war, it is likely that donor assistance will be substantially reduced.

1. Fiscal year ends June 30 of specified year.

SUDAN

Mid-1988 Population (mils.)	24
1988 Per Capita GNP in US$:	350 /1

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	0.9	6.7	1.3	-1.9	7.4
Net Indirect Taxes	9.4	12.3	8.6	3.8	4.5	3.7	..	..	..	..	..
Agriculture	48.9	38.2	31.0	33.4	29.4	34.7	0.3	3.4	1.3	-13.8	27.0
Industry	8.1	11.8	12.4	14.7	15.2	14.0	1.0	6.0	3.7	1.1	-0.5
(of which Manufacturing)	3.8	6.1	6.3	8.4	8.4	7.9	..	6.7	5.1	-1.3	0.2
Services	33.5	37.7	48.0	48.1	51.0	47.6	0.5	10.6	2.1	3.9	0.3
Resource Balance	-0.7	0.2	-11.6	-3.3	-8.2	-6.9	..	..	..	..	..
Exports of GNFS	14.5	16.9	12.0	3.8	6.8	6.4	3.0	-0.4	-1.8	-12.6	-0.2
Imports of GNFS	15.3	16.6	23.6	7.0	15.1	13.4	-5.8	10.6	0.0	-22.6	1.7
Total Expenditures	100.7	99.8	111.6	103.3	108.2	106.9	0.4	7.2	1.4	-2.9	7.3
Total Consumption	90.9	88.1	96.6	93.0	98.2	97.8	0.5	7.6	2.3	-1.9	8.2
Private Consumption	78.5	69.6	80.6	80.1	84.3	83.3	0.3	8.4	2.7	-3.2	7.5
General Government	12.4	18.5	16.0	12.9	13.9	14.5	1.4	3.9	0.2	6.2	12.1
Gross Domestic Investment	9.8	11.7	15.1	10.3	10.0	9.1	0.2	5.3	-5.8	-12.5	-1.4
Fixed Investment	..	..	11.5	8.2	9.0	8.1	..	-13.6	-2.4	-1.2	-2.5
Changes in Stocks	..	..	3.5	2.1	1.0	1.0	..	..	..	..	..
Gross Domestic Saving	9.1	11.9	3.4	7.0	1.8	2.2	0.3	2.2	-9.6	-14.1	-0.4
Net Factor Income	0.0	-1.0	-1.0	-3.1	-6.7	-4.3	..	..	..	..	..
Net Current Transfers	0.0	0.2	2.6	2.5	5.0	1.8	..	..	..	..	..
Gross National Saving	9.1	11.1	5.0	6.5	0.0	-0.3	-0.7	6.8	-11.1	-24.7	-23.3

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	17,516	17,098	25,768	29,887	29,319	31,486	0.9	6.7	1.3	-1.9	7.4
Capacity to Import	876	654	805	1,125	738	795	-5.8	2.2	-0.1	-34.4	7.8
Terms of Trade Adjustment	70	-553	-498	0	-246	-186	..	..	..	..	..
Gross Domestic Income	17,587	16,545	25,270	29,887	29,073	31,300	0.5	6.9	1.4	-2.7	7.7
Gross National Product	17,516	16,952	25,537	28,965	27,509	30,231	0.8	6.7	0.9	-5.0	9.9
Gross National Income	17,587	16,399	25,039	28,965	27,263	30,045	0.4	6.9	1.0	-5.9	10.2

	(1987 = 100)						*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	16.7	66.6	82.9	100.0	164.7	..	5.1	18.8	32.4	64.7	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	15.4	57.0	78.1	100.0	137.4	233.6	7.2	15.3	32.1	37.4	70.0
Implicit Expenditures Defl.	17.0	60.1	81.5	100.0	145.5	244.6	7.7	15.8	30.8	45.5	68.1

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.5	3.1	3.1
Labor Force	..	..	..
Gross Natl. Income p.c.	-2.1	3.7	-2.0
Private Consumption p.c.	-2.1	5.1	-0.3
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	-6.4	1.6	0.0
Marginal Savings Rates:			
Gross National Saving	-3.2	-5.7	-70.7
Gross Domestic Saving	-8.8	-11.6	-20.3
ICOR (period averages):	..	..	8.4

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	81.5	75.2	71.1	..
Industry	4.8	6.4	7.5	..
Services	13.7	18.4	21.4	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	*Volume Index* 1980	1985	1986	1987	1988	1989	*Value at Current Prices (millions US$)* 1980	1985	1986	1987	1988	1989
X.OAGRI.COTTON	..	70.2	48.5	100.0	56.8	66.3	..	245	136	176	161	236
X.FOOD.Z	..	133.9	115.8	100.0	156.7	239.9	..	43	35	28	43	43
X.FOOD.GROUNDNUT	..	69.3	78.6	100.0	382.9	446.4	..	15	7	5	26	22
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	1	31	53	28
Residual	..	..	..	..	..	..	..	307	326	246	229	244
Total Exports FOB	..	90.4	65.6	100.0	93.4	98.6	..	595	497	482	486	550
F. Merchandise Imports												
Food	..	278.1	210.7	100.0	158.2	260.2	..	192	195	140	172	214
Fuel and energy	..	76.1	92.3	100.0	100.9	100.5	..	286	266	184	212	204
Other Consumer Goods	..	..	..	..	..	..	..	69	68	81	115	103
Other Intermed. Goods	..	..	..	..	..	..	..	313	..	..	..	..
Capital goods	..	127.1	123.0	100.0	75.8	56.8	..	254	217	189	314	330
Total Imports CIF	..	96.2	93.7	100.0	89.2	89.4	..	1,115	1,055	832	1,223	1,235

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	131.4	116.5	100.0	106.9	119.4
Merch. Imports Price Index	..	150.1	141.5	100.0	165.6	167.0
Merch. Terms of Trade	..	87.5	82.4	100.0	64.6	71.5

H. Balance of Payments	*US$ millions (at current prices)* 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	810	800	702	702	661	750
Merchandise (FOB)	594	595	497	482	486	550
Non-Factor Services	216	205	205	220	175	200
Imports of Goods & NFS	1,597	1,395	1,338	1,132	1,456	1,560
Merchandise (FOB)	1,339	981	928	732	1,076	1,077
Non-Factor Services	258	414	410	400	380	483
Resource Balance	-787	-594	-636	-431	-795	-810
Net Factor Income	-70	-478	-556	-522	-649	-703
(interest per DRS)	49	73	47	21	19	33
Net Current Transfers	209	430	350	250	445	297
(workers' remittances)	209	430	350	250	300	..
Curr. A/C Bal. before Off. Transf.	-648	-642	-842	-703	-999	-1,216
Net Official Transfers	84	288	412	280	369	271
Curr. A/C Bal. after Off. Transf.	-564	-354	-430	-423	-630	-945
Long-Term Capital Inflow	146	694	1,113	800	1,290	-328
Direct Investment	0	0	0	0	0	0
Net LT Loans (DRS data)	653	84	62	163	329	261
Other LT Inflow (Net)	-507	610	1,051	637	961	-589
Total Other Items (net)	261	-440	-670	-597	-940	1,096
Net Short Term Capital	81	-508	-795	-516	-760	1,132
Capital Flows N.E.I.	0	257	270	110	13	0
Errors and Omissions	180	-189	-145	-191	-193	-36
Changes in Net Reserves	157	100	-13	220	280	177
Net Credit from the IMF	115	33	43	44	58	88
Other Reserves Changes	42	67	-56	176	222	89
As Share of GDP:						
Resource Balance	-11.6	-7.8	-6.9	-3.6	-7.4	-5.0
Interest Payments	0.7	1.0	0.5	0.2	0.2	0.2
Current Account Balance	-9.6	-8.4	-9.1	-5.9	-9.3	-7.4
Memorandum Items:						
Reserves excl. Gold (mil. US$)	49	12	59	12	12	16
Reserves incl. Gold (mil. US$)	49	12	59	47	107	176
Official X-Rate (LCUs/US$)	0.50	2.30	2.50	3.00	4.50	4.50
Index Real Eff. X-R Base 1980	100.00	99.49	94.34	83.77	96.04	141.90
GDP (millions of current US$)	6,760	7,648	9,228	11,955	10,746	16,348

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	14.7	9.7	8.3	8.0	9.1	..	20.4	35.3	36.4	46.5	..
Current Expenditures 1/	16.2	21.3	17.6	14.3	18.1	..	35.4	30.5	14.8	62.3	..
Current Budget Balance	-1.5	-11.7	-9.3	-6.3	-9.0	..	43.2	26.5	-4.3	82.2	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	7.1	3.1	1.5	3.4	3.6	..	19.9	0.2	0.9	0.1	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-8.6	-15.0	-11.1	-9.8	-12.6	..	37.7	17.2	24.6	64.6	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	5.7	11.0	7.9	5.3	8.5	..	40.4	12.8	-4.9	106.9	..
Domestic Non-Bank Financing	..	..	..	0.2	0.2	..	..	..	..	38.5	..
Domestic Bank Financing	2.9	4.0	3.3	4.3	3.9	..	89.9	29.1	87.0	14.3	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	653	84	62	163	329	261	3,877	6,644	7,111	8,090	8,044	8,055
Official Creditors	516	84	67	163	329	261	3,348	5,551	5,840	6,413	6,614	6,625
Multilateral	176	33	68	77	178	140	639	968	1,080	1,243	1,381	1,476
of which IBRD	-3	-5	-4	-6	-8	-8	46	43	46	49	37	28
of which IDA	37	36	65	60	120	81	190	517	597	688	796	871
Bilateral	340	51	-2	86	151	120	2,709	4,583	4,760	5,170	5,232	5,148
Private Creditors	138	0	-5	0	0	0	529	1,094	1,271	1,677	1,430	1,430
Suppliers	3	0	-5	0	0	0	178	9	4	4	4	4
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	325	244	244	372	374	372
Total LT	653	84	62	163	329	261	4,202	6,888	7,355	8,462	8,418	8,427
IMF Credit	132	-5	0	0	0	0	431	739	823	954	905	884
Net Short-Term Capital	81	-508	-795	-516	-760	1,132	585	1,501	1,630	2,100	2,530	2,980
Total incl. IMF & Net ST	867	-429	-734	-353	-431	1,393	5,219	9,128	9,808	11,516	11,853	12,291

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	1.10	0.62	0.63	0.58	0.44	0.33
2. IDA as % of Total	4.51	7.51	8.11	8.13	9.45	10.33
3. IBRD+IDA as % of Total	5.61	8.14	8.74	8.70	9.89	10.67
Share of LT Debt Service						
1. IBRD as % of Total	8.21	7.80	3.58	14.00	17.27	11.48
2. IDA as % of Total	1.38	6.35	3.32	12.67	14.58	10.33
3. IBRD+IDA as % of Total	9.59	14.16	6.90	26.67	31.85	21.81
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	406.41	553.08	685.85	879.96	876.05	1118.65
2. IMF Credit/Exports	41.69	59.33	76.73	99.24	94.20	117.40
3. Short-Term Debt/Exports	56.59	120.53	152.00	218.42	263.32	395.59
4. LT+IMF+ST DOD/Exports	504.69	732.94	914.58	1197.62	1233.57	1631.65
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	62.16	90.06	79.70	70.78	78.34	51.55
2. IMF Credit/GDP	6.38	9.66	8.92	7.98	8.42	5.41
3. Short-Term Debt/GDP	8.65	19.63	17.66	17.57	23.55	18.23
4. LT+IMF+ST DOD/GDP	77.19	119.35	106.29	96.33	110.31	75.19
Debt Service /Exports						
1. Public & Guaranteed LT	9.78	7.20	18.24	6.24	6.57	11.56
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	9.78	7.20	18.24	6.24	6.57	11.56
4. IMF Repurchases+Serv. Chgs.	8.86	3.22	2.03	1.45	0.07	1.87
5. Interest only on ST Debt	6.77	1.61	2.52	2.08	10.41	13.27
6. Total (LT+IMF+ST Int.)	25.41	32.42	40.69	14.65	17.05	26.71

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Tanzania

At Independence in 1961, Tanzania (then Tanganyika) was one of the poorest countries in the world, almost solely dependent on subsistence agriculture and a few estate crops, with a very small industrial base (mainly small-scale and accounting for less than 5 percent of GDP) and a limited number of educated and trained personnel. In the first six years after Independence the direction of economic policy was much the same as in many other less developed countries, relying largely on market forces and stressing the objectives of growth in per capita income and national self-sufficiency in skilled manpower. However, in 1967 the fundamental development objectives and strategies were reassessed. The new priorities, as enunciated in the Arusha Declaration and related policy statements, were directed toward establishing a socialist society, with greater emphasis to be given to broad-based rural development, self-reliance in development efforts, and the development of an education system geared to the needs of the people. To accomplish these goals, the Arusha Declaration emphasized that the state, with guidance from the party, should play the leading role, especially in the reform and creation of appropriate institutions. This led in the late 1960s and early 1970s to the nationalization of large-scale industry, commerce and finance, the formation of Ujamaa (communal) villages, the mass campaign of villagization, and the replacement of farmers' cooperatives with state-run crop marketing authorities responsible for all aspects of collection, processing and marketing of Tanzania's main export crops. In response to the declining purchasing power of Tanzania's traditional export crops the government also embarked upon an ambitious program of industrialization based upon import substitution and the creation of heavy industries.

The Economic Crisis

Despite the abrupt major institutional changes, Tanzania managed to achieve significant improvements in the social sectors during the 1960s and early 1970s. But in the second half of the 1970s the Tanzanian economy entered a period of economic decline from which it is only now beginning to recover. The overall downturn in the economy was caused in part by a series of external factors including successive droughts, the rapid increase in oil prices, the collapse of the East African Community and the war with Uganda. But the crisis also drew attention to some of the underlying weaknesses in the management of the economy. These included inadequate incentives and resources for the agricultural sector, a poorly implemented industrialization strategy, excessive administrative controls over economic activity and the continued growth in the size of the public sector without due regard to the limited financial and administrative capacity. GDP grew by 5.5 percent per annum between 1973 and 1978 but by only 0.4 percent per annum between 1978 and 1982. Inflation accelerated, the fiscal situation deteriorated sharply after 1979 with deficits averaging about 16 percent of GDP and exports and imports both declined significantly. By 1982 import volumes were 32 percent below the level in 1978 and 24 percent below the level of the early 1970s.

In an effort to address the country's economic problems, the government launched "Economic Survival Plans" in 1980 and 1981 but it was not until 1982 with the introduction of a structural adjustment program (SAP) that a more comprehensive approach to resolving them was initiated. This SAP sought to provide an overall framework of measures designed to restore financial and economic stability, stimulate agricultural development and improve efficiency, while endeavoring to protect the provision of basic social services and the incomes of the most vulnerable groups in the society.

The measures adopted under the SAP had some positive results but they were insufficient to stimulate any major recovery in the Tanzanian economy. The extent of adjustment of the exchange rate, for example, was insufficient to remove the overvaluation, and the increase in agricultural producer prices of 20 percent in nominal terms fell short of the prevailing rate of inflation of 30 percent. Real GDP contracted in 1983 and although there was some recovery in 1984 and 1985, GDP growth was still well below population growth. After steady declines in per capita consumption levels in the early 1980s some positive growth was restored in 1984 and 1985. But this was accompanied by a sharp decline in the level of investment. Food crop production, both for subsistence and off-farm consumption, generally kept pace with population growth due to improved growing conditions and measures to liberalize domestic grain marketing, but the overall trend for export crops continued to be downwards due to inadequate price incentives and inefficiencies in the marketing and transportation systems. The overall decline in agricultural exports, the shortage of foreign exchange for imported inputs, and the growing inefficiency of many industrial enterprises in Tanzania meant that industrial output continued to fall, with average capacity utilization declining to about 25 percent. The condition of the country's transport network also deteriorated, and Tanzania's achievements in the social sector began to be eroded, partly by the growth of the population but also by the inability of the government to provide adequate resources and management for the operation and maintenance of education, health and other facilities.

As a result of efforts to contain expenditures and raise additional revenues the central government's overall deficit relative to GDP has declined since the early 1980s. But the financial operations of the parastatals have shown persistent deficits in spite of price increases and efforts to instill a greater degree of efficiency in their operations. The deficits of the public sector were financed mostly by domestic credit which grew by about 20 percent per annum during 1980-84, and by about 30 percent in both 1985 and 1986. This contributed to a rate of domestic inflation close to 30 percent per annum in recent years. Tanzania's balance of payments has also remained under severe strain. The most striking feature was the unrelieved decline in export earnings, which in turn affected import capacity and caused imports to fall to well below even the nominal levels of earlier years. The lowest point for imports was reached in 1983. Since then, there has been some recovery, due mainly to a rapid growth in "own funds" imports. The current account deficit declined from 10 percent of GDP in 1982 to 8 percent in 1984 but rose slightly in 1985 and was estimated at 12 percent for 1986. With suppliers credits and medium and long term loans both registering a sharp fall in net inflows, the government was obliged to finance the deficits by an accumulation of external payments arrears. As a result, trade credit became scarce, as the export credit agencies of the major industrialized countries became reluctant to provide cover. Tanzania's medium and long term external debt is currently estimated at US$4.1 billion and the bulk of this debt is owed by the public sector.

The Economic Recovery Program

In mid 1986, following a review of the experience of the SAP in light of the disappointing performance of the economy, the government introduced a new Economic Recovery Program (ERP) aimed at remedying the defects of earlier policies. The specific objectives of the ERP, were to: (a) increase the output of food and export crops by providing appropriate price and non-price incentives for production, improving marketing structures, and increasing budgetary and foreign exchange resources available to agriculture; (b) direct investment resources toward rehabilitating the physical infrastructure of the country in support of directly productive activities; (c) increase capacity utilization in industry through the allocation of scarce foreign exchange to priority sectors and firms; and (d) pursue prudent fiscal, monetary and trade policies to restore domestic and external equilibrium and to ensure that production incentives were not eroded, and the efficiency of resource allocation are improved.

The ERP envisaged that the Tanzanian economy would attain positive growth rates in per capita income, a sustainable external balance of payments position with both higher export and import levels, an acceptably low rate of inflation, and restored levels of physical and social infrastructure by the end of a medium-term period of 5-7 years. To this end the government gave greater attention than in the past to the establishment of correct price signals in the economy including removing overvaluation of the exchange rate, achieving positive real interest rates and improving the real level of agricultural prices. The government also made some institutional changes aimed at encouraging and facilitating the activities of cooperatives and the private sector. Specific incentive and institutional measures were developed and implemented during the three years of the ERP. But these will need to be followed up by further policy and institutional changes if recovery is to be intensified and sustained. Durable recovery ERP is also dependent on domestic policy and institutional changes being complemented by additional inflows of external resources, and favorable weather. Over the three-year ERP period which ended June 30, 1989, economic activity increased, with GDP currently growing in excess of 4 percent per annum. However, due to terms of trade deterioration, the growth rate of national income was slightly less. Particularly noteworthy was a strong supply response in agriculture, especially foodgrains and cotton and a marked increase in the services sector.

External Policies. The government is convinced of the importance of timely adjustments of the exchange rate as a means of restoring the profitability of the export sector, and under the ERP decided to follow an active exchange rate policy aimed at eliminating the overvaluation of the Tanzanian shilling. To this end the exchange rate was moved in a series of adjustments, from TSh 90 to the U.S. dollar in late 1988 to TSh 190 in December 1989. As the exchange rate adjustment proceeded, the government progressively dismantled quantitative restrictions and switched to tariffs and other indirect levers to influence both the level and pattern of foreign trade. In February 1988 the Bank of Tanzania announced the opening of an Open General License (OGL) window which now has been substantially widened in the context of the Industrial Rehabilitation and Trade Adjustment Credit (IRTAC) approved in December 1988. The introduction of the OGL represented a major step in trade liberalization. The list of goods eligible to be imported covers a wide range of raw materials, intermediate goods, spare parts and other items such as drugs and pharmaceuticals. Concurrently, a reform of the tariff system was carried out, simplifying the rate schedule and reducing the number of exemptions.

Public Expenditure Management. As part of the ERP the government was largely successful in meeting the annual fiscal targets of containing the fiscal deficit, while trying to improve the quality of public expenditures. Revenues were enhanced by adjustments to customs duties and sales taxes, improved collections, and a rise in the volume of imports. On the expenditure side, employment levels in the public service were frozen (except for teachers and medical personnel), subsidies to parastatals were abolished, and resources shifted away from new projects and toward the maintenance and operation of priority social and economic services. The government is currently working on a medium term strategy for public expenditures, covering both recurrent and development outlays. It is also planning to address problems of the public service, notably the overall level of staffing and the distribution among the grades and functions of government, wage and salary levels and the pay differentials between different grades, non-wage benefits, and the scope and appropriateness of different departmental activities. In addition, the government intends to reduce further the size of the parastatal sector and to subject those enterprises remaining within the sector to a comprehensive program of efficiency-enhancing measures.

Pricing and Distribution Policies. The government made the structure of interest rates positive in real terms, and intends to continue the process of price decontrol. The 12-month saving deposits rate is now 30 percent, which is slightly above the 28 percent estimated rate of inflation. The government expects to reduce the interest rates by lowering the rate of inflation through appropriate budgetary and monetary policies. The number of categories of goods subject to price control was reduced to 10, considered basic necessities. As goods were decontrolled, the regulations that "confine" goods to specified parastatals for their importation and wholesale distribution were also dismantled.

Agriculture. The restoration of growth and the increase in export earnings will depend primarily on the performance of the agricultural sector and hence on the overall package of incentives for agriculture. In this regard under the ERP the government raised the real level of producer prices, linking them more closely to developments in world market prices. The government believed that agricultural production and exports could also be significantly enhanced by improvements in the efficiency of agricultural marketing. With regard to the marketing of foodgrains, domestic trade from the farmgate to the consumer was liberalized in the past three and a half years and this was a major factor in the increased production. The government now is implementing a program for fundamental changes in the structure of export crop and agricultural input marketing under the Bank-supported Tanzanian Agricultural Adjustment Program (TANAA). As a first step it permitted cooperative unions and other bodies to participate in export marketing and to import inputs either directly or through agents. As further measures, the program focuses on diversification of marketing channels and other improvements in the efficiency of export coop marketing. The key features of the program are: (i) to reduce the role of the marketing boards to managing auctions or open tender systems and providing quality control and market intelligence, and (ii) to introduce multiple channels of marketing by allowing private traders, farmers, associations, primary cooperative societies and cooperative unions to trade freely among themselves and to retain ownership of the crop until final sale.

Industry. The government's objectives in the industrial sector are to improve capacity utilization while at the same time ensuring that resources are directed toward the more productive and efficient firms in the sector. In this regard external sector policies and fiscal and monetary policies will be of critical importance. In addition, specific interventions are being prepared to assist in the progressive restructuring of particular subsectors, commencing with textiles, leather and agro-processing. These are potentially viable sub-sectors which could be expected to recover quickly and provide substantial supply responses. Reforms in the management and operation of parastatals are also necessary to ensure that they are responsive to price and other macroeconomic signals. In this connection, the government has taken measures to encourage managers to be more commercially oriented and less dependent on government financial support.

Transport. The main emphasis under the government's Recovery Program in regard to roads was the rehabilitation of the country's network of highways, secondary roads, feeder roads and access roads. It was recognized that a full restoration of the new system would take many years. The government prepared a program covering those parts of the network whose immediate rehabilitation was essential to recovery. Special emphasis was be given to treating transport bottlenecks that were impeding the distribution of agricultural inputs and the movement of export crops to processing centers and to ports. Closely linked with rehabilitation was improving the capacity of central and local government authorities to maintain the road network, both in regard to stretches that were still in reasonable condition and those that were recently rehabilitated. A two stage program for the rehabilitation of the Tanzanian railway system was also prepared and endorsed by donors who committed sufficient funds for the first stage of the program which has been completed. A second phase is expected to be appraised in July 1990.

The Economic and Social Action Program

The government prepared a second phase of its ERP called the Economic and Social Action Program (ESAP) and presented it to the last Consultative Group (CG) meeting which was held on December 18-20, 1989. The main features of the ESAP include (i) continued adjustment of the exchange rate; (ii) continued trade policy reform (iii) public sector management reform; (iv) financial sector restructuring, (v) reform of agricultural marketing, (vi) industrial restructuring, (vii) rehabilitation of the transport sector; and (viii) rehabilitation of the capacity to deliver social services.

The implementation of the ESAP is off to a good start. Action has been initiated or planned in all the key areas of the program. The government adjusted the exchange rate from about TSh 150 to about Tsh 190 per U.S. dollar in December 1990. The expansion of the OGL window is on track as planned under the ongoing Industry and Trade Adjustment Credit. The government is about to complete a financial sector review. Simultaneously, it has initiated the preparation of the financial sector restructuring program. The implementation of Bank-supported programs for the reform of agricultural marketing and the rehabilitation of the capacity to deliver social services (education and health) is under way, and as indicated above, implementation of the program for the rehabilitation of the country's road network is expected to start shortly.

External Finance and Recovery Prospects

With the ERP and the reaching of an agreement with IMF on a Standby Program, aid flows increased. In June 1986 the Bank chaired a CG meeting, the first to be held for Tanzania for nine years followed by second, third and fourth CGs in July 1987, 1988 and December 1989, respectively. The policies of the government under the ERP were welcomed, and significant additional aid resources were pledged for the first, second and third years of the Recovery Program. These resources, together with program support from IDA, the IMF's Standby and SAF, and the relief obtained from the debt rescheduling process that began with the Paris Club in September 1986, were sufficient for the three years of the ERP to be financed, although exports failed to reach their targeted levels, and the foreign exchange position remained extremely tight. At the last CG meeting donors endorsed ESAP and pledged adequate additional resources for the first year of its implementation.

Looking ahead, the continued financing of the recovery process will depend partly on the speed with which the economy responds to the improved resource situation and policy environment, and partly on the extent to which further aid commitments on an exceptional basis can be secured, which in turn will be related to policy performance. Thus far, the government has shown commendable resolve in meeting its policy commitment. The agenda of policy reformulation and institutional reshaping is a long and complex one, and will require determined action and external support over several years before Tanzania can put its economic difficulties behind it. The crucial areas for action under ESAP are agricultural marketing, industrial restructuring, and the strengthening of the financial sector, in addition to the maintenance of a satisfactory macro-economic framework especially with regard to the public sector management including the public expenditure program.

The Bank intends to continue to hold CG meetings for Tanzania on a regular basis, and the expectation is that, provided the momentum of policy reform is maintained, additional resources can be obtained to support the recovery process. As export levels strengthen over the medium term, the need for exceptional aid should diminish. If the additional aid forthcoming is insufficient or disbursements slow, the level of imports expected by the government will have to be adjusted downwards. Unless this is accompanied by further improvements in resource use efficiency, the speed at which recovery takes place will suffer. Over the next few years further debt rescheduling on an annual basis will be necessary.

TANZANIA

Mid-1988 Population (mils.)	22.5
1988 Per Capita GNP in US$:	160

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.0	1.9	2.7	4.8	4.3
Net Indirect Taxes	7.6	12.3	11.1	11.9	12.8	11.5	..	..	..	..	..
Agriculture	42.3	34.6	39.5	55.2	57.2	..	3.1	0.2	4.0	4.5	5.5
Industry	13.0	16.1	15.1	7.5	6.5	..	7.0	1.8	-2.0	4.4	7.4
(of which Manufacturing)	7.0	9.6	9.7	4.3	3.5	..	8.7	2.6	-2.5	5.4	6.5
Services	37.1	37.0	34.4	25.4	23.5	..	6.9	5.5	1.0	3.6	5.9
Resource Balance	0.9	-6.1	-13.2	-22.9	-26.0	-29.9	..	..	..	..	..
Exports of GNFS	26.1	23.7	13.2	13.5	15.8	18.2	6.3	3.4	-4.2	0.9	9.2
Imports of GNFS	25.1	29.8	26.3	36.3	41.7	48.0	7.7	-0.2	0.0	-1.2	5.4
Total Expenditures	99.1	106.1	113.2	122.9	126.0	..	5.9	0.9	2.8	3.8	4.1
Total Consumption	84.5	85.1	90.2	100.0	104.8	..	5.1	0.0	3.5	0.0	-0.4
Private Consumption	74.0	70.5	77.1	86.7	92.6	..	..	1.2	2.8	-0.7	-1.0
General Government	10.5	14.6	13.0	13.4	12.2	..	..	4.3	8.4	4.4	3.5
Gross Domestic Investment	14.6	21.1	23.0	22.8	21.2	..	9.6	4.2	0.3	20.4	20.3
Fixed Investment	12.9	19.8	20.5	21.1	19.8	..	10.3	4.7	0.8	22.3	24.8
Changes in Stocks	1.7	1.2	2.5	1.7	1.3	..	..	..	..	..	..
Gross Domestic Saving	15.5	14.9	9.8	0.0	-4.8	-10.0	1.0	..	..	..	85.8
Net Factor Income	-1.2	0.1	-0.3	-6.1	-6.7	-7.8	..	..	..	..	..
Net Current Transfers	0.0	-0.8	0.4	6.7	7.5	7.9	..	..	..	..	..
Gross National Saving	14.3	14.2	10.0	0.6	-4.0	-9.8	1.3	-17.0	-14.8	843.5	60.9
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	106	164	188	219	231	240	5.0	1.9	2.7	5.2	4.3
Capacity to Import 2/	58	78	45	30	30	31	4.3	-5.6	-5.4	0.6	5.5
Terms of Trade Adjustment	39	48	9	0	0	-1	..	..	..	..	..
Gross Domestic Income	146	212	198	219	230	239	4.5	-0.5	2.3	5.2	3.8
Gross National Product	105	164	188	206	215	222	5.2	1.9	1.8	4.6	3.0
Gross National Income	144	212	197	206	215	220	4.7	-0.5	1.5	4.5	2.5

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	15.6	58.1	77.0	100.0	131.2	..	9.9	15.1	31.1	31.2	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	22.4	60.4	75.9	100.0	135.1	170.9	3.8	16.0	25.1	35.1	26.4
Implicit Expenditures Defl.	19.6	53.7	68.5	100.0	140.4	..	3.8	17.7	27.0	40.4	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*	
Population	3.2	3.3	2.8	
Labor Force	..	..	..	
Gross Natl. Income p.c.	1.4	-3.7	-1.9	
Private Consumption p.c.	..	-2.0	-0.7	
Import Elasticity:				
Imports (G+NFS) / GDP(mp)	1.6	-0.1	0.0	
Marginal Savings Rates:				
Gross National Saving	13.8	-12.3	-145.4	
Gross Domestic Saving	14.0	-16.7	-87.4	
ICOR (period averages):	..	15.1	10.0	
Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	91.5	88.9	85.6	..
Industry	2.7	3.5	4.5	..
Services	5.8	7.6	9.9	..
Total	100.0	100.0	100.0	..

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.BEV.COFFEE	103.1	104.1	119.6	100.0	91.8	131.4	144	119	185	109	97	113
X.OAGRI.COTTON	70.4	49.3	69.7	100.0	115.5	127.2	49	30	30	44	75	86
X.BEV.TEA	111.1	97.8	80.0	100.0	93.3	74.1	22	17	14	18	16	14
X.OAGRI.TOBACCO	42.7	93.6	87.6	100.0	119.2	135.7	13	14	15	12	15	20
Manufactures	..	..	..	..	..	..	85	33	39	63	73	69
Residual	..	..	..	..	..	..	194	112	63	101	97	105
Total Exports FOB 3/	136.3	78.5	92.6	100.0	107.2	117.7	507	325	346	347	373	407
F. Merchandise Imports												
Food	..	..	..	..	..	..	149	78	95	76	107	108
Fuel and energy	..	..	..	..	..	..	290	224	145	170	294	305
Other Consumer Goods	..	..	..	..	..	..	102	84	115	116	169	214
Other Intermed. Goods	..	..	..	..	..	..	172	177	196	177	210	198
Capital goods	..	..	..	..	..	..	506	434	494	611	406	479
Total Imports CIF 3/	105.2	96.7	97.5	100.0	105.1	111.0	1,220	999	1,050	1,150	1,185	1,305

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index 3/	113.5	93.6	108.4	100.0	108.1	..
Merch. Imports Price Index 3/	101.4	92.5	93.4	100.0	102.4	..
Merch. Terms of Trade 3/	111.9	101.2	116.1	100.0	105.5	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	673	430	446	442	486	518
Merchandise (FOB)	508	325	345	347	373	407
Non-Factor Services	165	106	100	95	113	111
Imports of Goods & NFS	1,221	936	992	1,207	1,255	1,371
Merchandise (FOB)	1,089	857	910	1,149	1,066	1,189
Non-Factor Services	132	79	82	58	189	182
Resource Balance	-549	-506	-546	-765	-769	-853
Net Factor Income	-14	-98	-100	-207	-209	-223
(interest per DRS)	42	23	30	38	41	65
Net Current Transfers	22	233	250	230	235	227
(workers' remittances)	8	45	48	41	0	0
Curr. A/C Bal. before Off. Transf.	-541	-370	-397	-742	-743	-850
Net Official Transfers	108	223	224	477	508	523
Curr. A/C Bal. after Off. Transf.	-433	-147	-173	-265	-235	-326
Long-Term Capital Inflow	289	21	153	-37	30	16
Direct Investment	..	..	..	..	..	0
Net LT Loans (DRS data)	347	134	164	74	145	217
Other LT Inflow (Net)	-57	-113	-11	-110	-115	-201
Total Other Items (net)	77	119	83	200	251	342
Net Short Term Capital	74	-1	41	117	0	0
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	3	120	42	83	251	342
Changes in Net Reserves	66	8	-63	102	-46	-32
Net Credit from the IMF	7	-2	24	50	34	-9
Other Reserves Changes	59	10	-87	52	-80	-23
As Share of GDP:						
Resource Balance	-10.7	-7.3	-11.2	-22.5	-24.5	-29.8
Interest Payments	0.8	0.3	0.6	1.1	1.3	2.3
Current Account Balance	-10.5	-5.4	-8.1	-21.8	-23.7	-29.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	20	16	61	32	78	54
Reserves incl. Gold (mil. US$)	20	16	61	32	78	54
Official X-Rate (LCUs/US$)	8.20	17.47	32.70	64.26	99.29	143.38
Index Real Eff. X-R Base 1980	100.00	204.59	141.85	69.80	54.66	..
GDP (millions of current US$)	5,138	6,904	4,883	3,409	3,137	2,865

I. Budget (Central)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	19.3	19.0	15.1	16.2	19.8	23.1	19.9	15.1	85.5	53.6	35.1
Current Expenditures	19.2	19.6	18.7	18.0	22.8	..	21.9	30.9	34.2	39.3	..
Current Budget Balance	0.1	-0.6	-3.6	-1.8	-3.0	..	..	528.9	..	134.2	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	12.4	5.7	4.3	6.3	5.7	..	-0.8	1.6	95.8	28.1	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-9.0	-7.4	-7.9	-8.1	-8.7	-9.7	16.3	43.8	38.6	17.1	21.5
Official Capital Grants	3.2	1.6	1.2	5.9	6.7	..	-0.5	0.5	561.4	60.0	..
External Borrowing (net)	2.2	0.8	0.4	1.2	1.5	..	-27.8	-33.5	307.6	85.5	..
Domestic Non-Bank Financing	..	1.2	0.6	0.9	0.5	..	..	-29.2	96.6	-19.0	..
Domestic Bank Financing	6.9	3.0	3.7	0.9	1.8	..	13.7	68.5	-67.1	170.1	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	332	134	164	73	146	217	2,010	3,011	3,748	4,244	4,091	4,760
Official Creditors	165	124	163	73	149	195	1,554	2,434	3,357	3,826	3,824	4,407
Multilateral	86	47	73	72	125	159	510	1,034	1,188	1,384	1,431	1,664
of which IBRD	30	-13	-19	-19	-21	-23	198	266	291	325	279	252
of which IDA	34	32	83	87	131	110	242	568	670	801	914	1,067
Bilateral	80	77	90	1	25	36	1,044	1,400	2,170	2,442	2,393	2,743
Private Creditors	167	10	1	0	-3	22	455	577	391	418	267	353
Suppliers	77	4	0	0	-1	22	218	248	217	253	148	247
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	15	0	1	1	-1	0	84	19	12	12	9	9
Total LT	347	134	164	74	145	217	2,093	3,029	3,761	4,256	4,100	4,769
IMF Credit	34	-8	7	28	34	-9	171	58	71	113	141	129
Net Short-Term Capital	74	-1	41	117	0	0	307	783	368	492	560	555
Total incl. IMF & Net ST	454	125	212	219	178	208	2,572	3,870	4,200	4,862	4,802	5,452

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	9.44	8.77	7.74	7.63	6.81	5.29
2. IDA as % of Total	11.57	18.76	17.82	18.81	22.29	22.37
3. IBRD+IDA as % of Total	21.01	27.53	25.56	26.45	29.11	27.66
Share of LT Debt Service						
1. IBRD as % of Total	20.72	64.15	73.09	61.70	51.82	36.26
2. IDA as % of Total	2.27	11.74	12.13	12.81	12.19	10.52
3. IBRD+IDA as % of Total	22.99	75.88	85.23	74.51	64.01	46.78
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	301.34	634.02	747.08	872.04	829.96	897.95
2. IMF Credit/Exports	24.66	12.10	14.14	23.23	28.62	24.20
3. Short-Term Debt/Exports	44.23	163.81	73.08	100.76	113.38	104.51
4. LT+IMF+ST DOD/Exports	370.23	809.93	834.31	996.03	971.96	1026.66
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	40.74	43.88	77.03	124.87	130.70	166.46
2. IMF Credit/GDP	3.33	0.84	1.46	3.33	4.51	4.49
3. Short-Term Debt/GDP	5.98	11.34	7.54	14.43	17.85	19.37
4. LT+IMF+ST DOD/GDP	50.05	56.06	86.02	142.62	153.06	190.32
Debt Service /Exports						
1. Public & Guaranteed LT	10.68	12.18	12.12	14.94	17.17	21.47
2. Private Non-guaranteed LT	3.28	0.84	0.66	0.74	0.61	0.19
3. Total Long-Term Debt Service	13.96	13.02	12.77	15.67	17.77	21.66
4. IMF Repurchases+Serv. Chgs.	5.63	1.86	7.09	3.97	2.69	2.75
5. Interest only on ST Debt	3.74	5.23	3.97	4.10	4.45	0.19
6. Total (LT+IMF+ST Int.)	23.34	20.11	91.34	23.75	24.92	24.59

Notes:

1/ Population estimates for 1988 and 1980-88 growth rate based on 1980 Population census.

2/ Value of exports of goods and non-factor services deflated by the import price index.

3/ World Tables 1989 - 90 Edition volume and price indices.

Thailand

Parallel to relatively rapid economic growth, the structure of the Thai economy has changed considerably during the last decade. In 1978 agriculture was still the leading sector, producing 24.5 percent of GDP, while manufacturing produced 20.0 percent. Manufacturing replaced agriculture as the largest sector in 1981, and by 1988 the share of manufacturing had increased to 24.4 percent, while that of agriculture had declined to 16.9 percent. During the same period, the Thai economy has become more export oriented and its exports have become distinctly manufacturing based. Over the past decade, exports of goods and non-factor services have increased from 17 percent of GDP to 34.5 percent; the share of manufactured exports in total merchandise exports has risen from 30 percent to 60 percent. Rice, the leading export commodity of Thailand for many years, was surpassed by textile products in 1985, and in just two years, textiles exports rose to more than twice the level of rice exports. Thailand is now undergoing a rapid transformation from a primarily agriculture-based economy to an industrial economy.

Despite its relatively stable growth, however, the Thai economy faced a period of serious imbalances and painful adjustments in the early 1980s. Because of its heavy dependence on imported oil, Thailand was seriously affected by the two oil prices shocks. However, since the first oil shock coincided with a general commodity price boom, the macro balances did not immediately deteriorate and the domestic energy prices were allowed to fall significantly below the international prices. This, combined with a relatively expansionary fiscal stance, contributed to the sharp deterioration in both fiscal and external balances when the second oil shock hit Thailand. The current account deficits averaged about 7 percent of GDP from 1979 to 1983 and the public sector deficit hovered around 5 percent of GDP from 1979 to 1985. The long-term external debt rose from $2.7 billion in 1978 to $13.3 billion in 1985.

In 1980, the Thai government embarked on a course of structural adjustment, which combined fiscal retrenchment, stronger tax collection, competitive exchange rate management, vigorous export promotion, and reduction of external borrowing. The economy was slow to respond to the policy changes, in part due to the unfavorable global economic situation, and in part due to the relatively gradual approach to adjustment. Since 1985, however, the cumulative effect of various measures and the propitious external events began to change the economic situation for the better. After the 14 percent devaluation of the baht in late 1984, the dollar (to which the baht is closely linked) began to depreciate, thereby causing the real effective exchange rate to depreciate by some 30 percent by 1988. As the terms of trade improved and the Thai economy regained faster rates of growth, both fiscal and external deficits fell with impressive rapidity, confirming the underlying progress that Thailand had made in rectifying macro imbalances.

Recent Developments

Since 1987, the Thai economy has been enjoying the strongest boom in its history. The real GDP growth rate accelerated from 4.5 percent in 1986 to 8.6 percent in 1987. This was followed by GDP growth rates of 11 percent both in 1988 and 1989. The overall growth of the economy has been boosted by good performance of most sectors. The construction sector and banking activity have kept pace with these growth trends. The rate of inflation was relatively modest at 5.4 percent in 1989, despite the rising prices in agricultural commodities, rising interest rates, and oil prices. Manufacturing export growth, after having surged in value by 53 percent in 1987 and 41 percent in 1988 was down in 1989 to a still respectable rate of 23 percent in 1989. The public sector trimmed its deficit to 2 percent of GDP in FY1987 and posted a surplus of about 1 percent in FY1988. The external current account deficit was cut to 1 percent of GDP in 1987, but rose to nearly 5 percent in 1989. The debt service ratio on long-term debt has fallen from over 25 percent in 1985 to less than 11 percent in 1989.

While the economic rebound was most directly attributable to favorable external conditions (including the depreciation of the US dollar, rising cost pressures on the Asian NIEs and Japan, and lower oil prices), sound domestic conditions enlargened the impact of the initial external demand. Conservative fiscal management, competitive exchange rate policy, gradual shift in the incentive regime toward exports, and political stability have strengthened the investor confidence in the Thai economy. Helped by the large inflow of foreign direct investment (particularly from Japan and Taiwan), private investment rose by 26 percent in 1987, 34.1 percent in 1988, and was around 20 percent in 1989.

The economy is likely to extend the record of strong growth this year. However, some signs of strain on the economy are emerging. Existing industrial infrastructure is clearly overburdened by the heightened level of economic activity (especially roads, ports, and telecommunications). The sharp reduction in public investment in the past several years has aggravated this situation. The shortages of engineers and skilled technicians are widely reported and their salaries seem to be rising substantially. In order to sustain strong growth, Thailand must increase infrastructure investment to the levels commensurate with the accelerated pace of industrial activities and improve the supply of skilled manpower, especially scientists and engineers. Rapid growth of private investment and consumption appears potentially inflationary. Sharp increases in land prices are also reported in some areas.

In recent years Thailand's rapid economic growth has brought to surface the need for policy and institutional changes in the financial system. Thailand's response and strategy to tackle the growth-created problems has been to further liberalize and open up the system, and at the same time to improve the regulatory and supervisory framework. In recent months, deposit interest rates, (except savings deposit rates) have been completely freed. Lending rates have also been substantially liberalized by increasing the ceiling rates. Foreign exchange regime and controls, already quite liberal, have also been further relaxed. Institutional reforms to reduce functional fragmentation in the system are also being undertaken. Concomitant improvements in supervision and regulation, including institutional arrangements to deal with failing and failed financial institutions, are also being implemented. As a result of these reforms, Thailand's financial system is becoming even more liberal and open than it has traditionally been.

Development Objectives and Medium-Term Outlook

On the whole, the Thai government has held growth and equity as its dual objectives of development, though the precise balance has shifted depending on the economic conditions. At the beginning of the Sixth Five-Year Plan (1986-91), external prospects seemed unfavorable and the continued adjustment effort appeared critical. As a result, the Plan put forth a rather modest growth target of 5 percent a year and the continuation of fiscal austerity. The main objective was basically to maintain a growth rate that is sufficiently high to absorb the expected 3.3 percent a year growth in the labor force, while keeping fiscal and balance of payment deficits under control. Although infrastructure bottlenecks and emerging manpower constraints are now seen as the most pressing issues in the coming year, the concerns for income distribution and poverty alleviation also remain strong and are gathering momentum. These concerns are reflected in the recent initiative called the "Green Northeast" program to tackle the poverty problem in the Northeast, the poorest region in the country. These concerns are also likely to shape the main theme of the next Five Year Plan.

For the longer term, Thailand's development strategy focuses on industrial deepening and sophistication to maintain the export-led industrial growth. In this strategy, a particular emphasis is placed on the role of small and medium enterprises, many of which will form the "supporting industries" that supply parts and components to the final assemblers or exporters in the increasingly higher technology segments of manufacturing. It is thought that the export competitiveness of Thailand in more advanced industries critically depend on the efficiency of these smaller firms. The government's emphasis on smaller firms also derives from its belief that it will tend to lead to more equitable distribution of income and assets as well as its hope that it will tend to create more employment. To implement this strategy, the government is beginning to focus on the biases against smaller firms that exist in the investment incentives, the financial system, and the provision of industrial infrastructure. It is also beginning to focus on the biases against heavy intermediate goods and capital goods industries that exist in the tariff structure.

Both the Thai business community and the government are optimistic about the medium-term outlook. The two factors that make them confident are the strong economic performance of Thailand during the last two years and the general sense that the right economic conditions for export-led industrial growth has been created. In fact, the Thai economy may be poised for a period of accelerated industrial growth, or an industrial "take-off," provided that policy actions are taken to further strengthen the competitiveness of the economy. Such actions are needed in several areas including further improvement of trade and industrial policy, financial sector reform, upgrading of industrial infrastructure, sound macroeconomic management, privatization of state enterprises, and adapting the education system to respond to the changing needs of the economy to produce more engineers, scientists and skilled manpower.

As the level of investment is expected to be particularly high during the coming years, Thailand's external financing needs are likely to increase from the very modest levels in the past few years. However, a large part of the need will be met by a significant inflow of direct investment. Thailand will find no difficulty filling the remaining gap with funds from both official and private sources. The country remains highly creditworthy and enjoys a very favorable market perception. At the end of 1989, the total debt outstanding was estimated at around US$20 billion equivalent. The total debt to GDP ratio peaked in 1985 and is estimated to have fallen to about 30 percent in 1989. The debt service ratio for medium- and long-term debt peaked at 24.2 percent in 1986 and has fallen to about 12 percent in 1989.

THAILAND

Mid-1988 Population (mils.)	54
1988 Per Capita GNP in US$:	1,000

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	7.8	7.7	6.2	11.1	10.3
Net Indirect Taxes	10.8	10.5	11.6	12.2	13.6	..	..	..	..	..	..
Agriculture	31.9	27.7	23.2	16.1	16.9	..	4.9	4.4	3.7	8.6	3.3
Industry	22.9	26.8	30.8	34.7	35.1	..	9.9	10.0	6.6	12.8	16.3
(of which Manufacturing)	14.2	19.2	21.2	23.9	24.4	..	12.3	9.7	6.8	12.4	18.6
Services	45.2	45.5	46.0	49.2	48.0	..	8.3	7.7	6.8	10.7	8.1
Resource Balance	-1.2	-1.4	-6.3	0.3	-1.7	-3.0	..	..	..	..	..
Exports of GNFS	16.5	18.6	24.3	30.1	34.5	35.9	9.2	10.4	11.4	19.6	19.6
Imports of GNFS	17.6	20.0	30.6	29.8	36.2	38.8	8.7	8.1	7.6	39.7	22.4
Total Expenditures	101.2	101.4	106.3	99.7	101.7	..	7.8	7.4	5.4	17.1	11.7
Total Consumption	81.3	76.8	79.0	75.9	72.1	..	7.2	7.5	5.5	17.2	13.1
Private Consumption	71.7	67.1	66.6	64.0	61.3	..	6.9	6.8	5.5	19.8	12.5
General Government	9.7	9.7	12.4	12.0	10.8	..	9.4	12.0	5.2	4.2	17.2
Gross Domestic Investment	19.7	27.0	26.4	25.8	27.5	..	9.8	7.0	5.0	16.6	7.7
Fixed Investment	18.8	22.5	25.2	23.5	25.8	..	11.0	9.3	4.7	17.7	7.6
Changes in Stocks	1.0	4.5	1.3	2.3	1.7	..	..	..	..	..	..
Gross Domestic Saving	18.6	25.6	20.1	26.1	25.8	23.0	9.5	4.2	8.6	7.7	1.5
Net Factor Income	-0.1	-0.4	-0.8	-1.8	-1.7	-1.2	..	..	..	..	..
Net Current Transfers	0.0	1.1	0.2	0.2	0.1	0.5	..	..	..	..	..
Gross National Saving	18.5	26.3	19.5	24.4	24.1	22.2	9.6	2.9	7.9	7.4	3.4

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	273	512	826	1,234	1,371	1,511	7.8	7.7	6.2	11.1	10.3
Capacity to Import	68	157	206	372	490	582	8.2	5.7	11.2	31.8	18.8
Terms of Trade Adjustment	21	61	24	0	45	50	..	..	..	..	..
Gross Domestic Income	295	573	851	1,234	1,416	1,562	7.7	6.7	6.2	14.7	10.3
Gross National Product	273	510	821	1,211	1,347	1,488	7.8	7.6	6.0	11.2	10.5
Gross National Income	295	571	846	1,211	1,392	1,538	7.6	6.6	6.1	14.9	10.5

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	75.4	95.8	97.6	100.0	103.9	109.4	3.0	9.3	3.4	3.9	5.4
Wholesale Prices (IFS 63)	86.7	94.8	94.4	100.0	108.2	113.2	3.9	9.5	1.6	8.2	4.6
Implicit GDP Deflator	79.7	93.4	96.3	100.0	106.9	113.1	1.7	7.9	3.0	6.9	5.8
Implicit Expenditures Defl.	77.4	95.0	95.8	100.0	103.5	..	1.8	9.0	2.9	3.5	..

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.1	2.6	1.9
Labor Force	..	..	..
Gross Natl. Income p.c.	4.4	3.9	4.0
Private Consumption p.c.	3.7	4.1	3.5
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.1	1.1	1.2
Marginal Savings Rates:			
Gross National Saving	35.6	8.5	32.1
Gross Domestic Saving	33.7	11.1	34.4
ICOR (period averages):	..	4.0	4.1

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	81.7	76.9	70.9	..
Industry	5.2	7.4	10.3	..
Services	13.1	15.7	18.8	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.RICE	62.9	91.2	101.9	100.0	114.3	143.8	953	829	722	887	1,371	1,833
X.FOOD.Z	84.0	113.4	100.8	100.0	130.8	..	727	552	726	807	864	..
X.OAGRI.RUBBER	51.3	77.9	85.6	100.0	105.7	108.9	603	500	575	802	1,075	1,107
X.MAN.TEXT	..	..	..	..	..	..	597	..	1,342	2,148	2,670	..
Manufactures	..	..	..	..	..	..	2,271	2,920	3,985	6,087	8,565	10,541
Residual	..	..	..	..	..	..	1,354	2,319	1,524	914	1,261	5,011
Total Exports FOB	49.0	72.8	85.4	100.0	135.8	158.2	6,505	7,120	8,874	11,645	15,806	18,492
F. Merchandise Imports												
Food	..	..	..	..	..	..	302	234	232	313	429	472
Fuel and energy	..	..	..	..	..	..	2,868	2,088	1,230	1,749	1,535	1,920
Other Consumer Goods	..	..	..	..	..	..	639	648	698	1,156	1,108	1,310
Other Intermed. Goods	..	..	..	..	..	..	2,213	2,790	3,207	5,379	7,110	9,726
Capital goods	..	..	..	..	..	..	2,250	2,776	2,978	4,747	7,694	9,065
Total Imports CIF	71.4	75.0	77.9	100.0	133.9	166.6	9,280	9,328	9,342	13,344	17,876	22,492

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	113.9	84.1	89.2	100.0	100.0	100.5
Merch. Imports Price Index	97.4	93.2	90.0	100.0	100.0	101.2
Merch. Terms of Trade	117.0	90.1	99.2	100.0	99.9	99.3

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	7,942	9,107	11,075	14,641	20,454	24,453
Merchandise (FOB)	6,452	7,065	8,777	11,572	15,806	18,492
Non-Factor Services	1,490	2,042	2,298	3,068	4,648	5,960
Imports of Goods & NFS	9,966	10,181	10,185	14,324	21,361	26,339
Merchandise (FOB)	8,351	8,411	8,387	11,986	17,888	22,492
Non-Factor Services	1,615	1,770	1,798	2,337	3,473	3,847
Resource Balance	-2,024	-1,074	890	317	-907	-1,886
Net Factor Income	-259	-645	-864	-896	-984	-993
(interest per DRS)	469	910	1,030	1,066	1,184	1,158
Net Current Transfers	75	47	63	100	47	303
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-2,208	-1,673	89	-479	-1,844	-2,577
Net Official Transfers	142	119	161	125	190	0
Curr. A/C Bal. after Off. Transf.	-2,066	-1,554	250	-354	-1,655	-2,577
Long-Term Capital Inflow	2,074	1,597	52	390	1,217	2,517
Direct Investment	186	160	262	186	1,083	1,202
Net LT Loans (DRS data)	1,802	1,519	-131	26	226	1,145
Other LT Inflow (Net)	86	-82	-79	178	-92	170
Total Other Items (net)	-169	39	382	876	3,004	2,817
Net Short Term Capital	11	-78	-213	627	2,616	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-180	117	595	249	387	..
Changes in Net Reserves	161	-82	-684	-912	-2,566	-2,758
Net Credit from the IMF	-58	229	-32	-73	-277	..
Other Reserves Changes	219	-311	-652	-839	-2,288	-2,758
As Share of GDP:						
Resource Balance	-6.3	-2.9	2.1	0.7	-1.6	-2.8
Interest Payments	1.5	2.4	2.5	2.2	2.0	1.7
Current Account Balance	-6.9	-4.5	0.2	-1.0	-3.2	-3.9
Memorandum Items:						
Reserves excl. Gold (mil. US$)	1,560	2,190	2,804	4,007	6,097	9,515
Reserves incl. Gold (mil. US$)	3,026	3,003	3,777	5,206	7,112	10,508
Official X-Rate (LCUs/US$)	20.48	27.16	26.30	25.72	25.29	25.70
Index Real Eff. X-R Base 1980	100.00	95.31	84.97	79.94	77.34	..
GDP (millions of current US$)	32,160	37,350	41,624	47,974	57,949	66,541

I. Central Government Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	14.4	16.0	15.6	15.9	15.0	..	12.7	4.7	15.4	11.7	..
Current Expenditures	14.5	17.3	16.5	15.4	13.7	..	13.2	3.2	4.9	6.0	..
Current Budget Balance	-0.1	-1.3	-0.9	0.5	1.3	..	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	5.1	4.1	3.7	3.0	2.6	..	0.6	-5.9	-1.0	1.3	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-5.2	-5.9	-4.7	-2.2	0.9	..	..	..	..	..	..
Official Capital Grants	0.3	0.4	0.5	0.6	0.5	..	..	..	..	..	..
External Borrowing (net)	1.2	1.8	1.0	0.3	0.4	..	..	..	..	..	..
Domestic Non-Bank Financing	0.1	2.7	2.2	0.9	1.2	..	..	..	..	..	..
Domestic Bank Financing	3.7	0.8	1.4	1.0	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	1,124	1,521	131	238	-53	749	3,904	9,836	11,537	13,963	13,375	13,881
Official Creditors	547	580	321	39	-398	396	2,167	5,743	7,088	8,571	7,769	8,178
Multilateral	200	326	174	-11	-480	-270	992	3,096	3,780	4,432	3,646	3,654
of which IBRD	120	202	73	-27	-493	-246	671	2,202	2,781	3,413	2,616	2,272
of which IDA	4	8	4	2	0	-1	32	105	109	111	111	110
Bilateral	347	254	147	50	82	666	1,174	2,647	3,308	4,140	4,124	4,524
Private Creditors	577	941	-189	198	346	352	1,737	4,093	4,449	5,392	5,606	5,704
Suppliers	-7	59	-21	-51	-10	21	8	488	589	691	653	625
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	678	-2	-262	-212	279	396	1,703	3,370	3,108	3,108	3,530	3,926
Total LT	1,802	1,519	-131	26	226	1,145	5,606	13,206	14,645	17,071	16,905	17,807
IMF Credit	23	101	-172	-247	-260	0	348	1,122	1,069	972	662	0
Net Short-Term Capital	11	-78	-213	627	2,616	..	2,303	3,200	2,840	2,664	2,531	2,817
Total incl. IMF & Net ST	1,836	1,542	-516	406	2,582	..	8,258	17,527	18,554	20,707	20,097	20,625

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	11.97	16.67	18.99	20.00	15.48	12.76
2. IDA as % of Total	0.57	0.80	0.74	0.65	0.65	0.62
3. IBRD+IDA as % of Total	12.54	17.47	19.73	20.64	16.13	13.37
Share of LT Debt Service						
1. IBRD as % of Total	6.33	9.05	11.74	15.13	25.67	22.02
2. IDA as % of Total	0.06	0.04	0.04	0.04	0.04	0.06
3. IBRD+IDA as % of Total	6.39	9.09	11.78	15.17	25.71	22.09
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	65.36	129.10	120.99	108.47	77.72	68.95
2. IMF Credit/Exports	4.06	10.97	8.83	6.18	3.04	0.00
3. Short-Term Debt/Exports	26.85	31.28	23.46	16.93	11.63	10.91
4. LT+IMF+ST DOD/Exports	96.26	171.35	153.29	131.58	92.39	79.86
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	17.43	35.36	35.18	35.58	29.17	26.76
2. IMF Credit/GDP	1.08	3.00	2.57	2.03	1.14	0.00
3. Short-Term Debt/GDP	7.16	8.57	6.82	5.55	4.37	4.23
4. LT+IMF+ST DOD/GDP	25.68	46.93	44.58	43.16	34.68	31.00
Debt Service /Exports						
1. Public & Guaranteed LT	5.03	14.40	15.87	12.32	11.24	7.60
2. Private Non-guaranteed LT	9.48	10.70	9.33	6.36	4.40	3.19
3. Total Long-Term Debt Service	14.51	25.10	25.20	18.68	15.65	10.79
4. IMF Repurchases+Serv. Chgs.	0.41	3.05	3.14	2.01	1.46	
5. Interest only on ST Debt	3.82	3.69	1.88	1.30	0.97	0.89
6. Total (LT+IMF+ST Int.)	18.74	35.26	33.19	23.11	18.08	11.68

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Togo

A small country with a population of roughly 3.5 million located on the Gulf of Guinea in Western Africa, Togo is relatively well endowed in terms of agricultural and mineral resources and is served by a well-developed highway network linking its capital and principal port, Lomé, with neighboring Benin, Ghana and Burkina Faso. About 80 percent of Togo's roughly three million inhabitants derive their incomes from a diversified rural sector producing foodcrops as well as coffee, cocoa and cotton for export. The economy is also sustained by a robust, small-scale commercial sector and a phosphate mining operation. Its banking system serves the entire subregion. Togo is relatively poor, however, with average GNP per capita of only US$370 equivalent in 1988.

With phosphate mining its principal source of growth and government revenue, the Togolese economy enjoyed moderately strong growth and financial stability for a decade and a half up through the early 1970s. Beginning in late 1974, a series of external "shocks," coupled with weak national economic management, profoundly affected the Togolese economy for a period of nearly ten years. Buoyed by a quadrupling of phosphate prices in late 1974 and a consequent near doubling of its own budgetary revenue in 1975, the government embarked on an ambitious public investment program and creation of public enterprises in the secondary sector. Its objectives were heavy industrialization and rapid modernization of the economy. By 1978, the ratio of investment to GDP had climbed to an extraordinary 46 percent. International phosphate, coffee and cocoa prices were by that time well below "boom" levels, however, and Togo began to incur large payments arrears on its external debt. Moreover, the incremental phosphate and coffee/cocoa receipts and the new foreign borrowing having been applied to a poorly prepared public investment program and public enterprises which proved unviable, the economy lacked a stimulus for renewed growth in the early 1980s.

Recent Economic and Financial Developments

The government had initiated stabilization measures in 1979, but it was only through more rigorous programs in 1983-84 and 1984-85, complemented by fourth and fifth round debt reschedulings, that Togo began to reduce its external and domestic deficits substantially. Concurrently, the government launched the first phase of its structural adjustment program. The government's major achievement under the program was a very substantial improvement in farmer incomes and incentives through the lifting of agricultural producer prices. Stimulated largely by the continuing price increases, complemented by well organized project institutions, incomes of coffee, cocoa and cotton farmers together are estimated to have doubled in real terms in the 1982-86 period. The overall impact of measures taken was to reverse a negative trend in real output incurred in the 1980-83 period largely as a result of the poor economic management of the 1970s. Stimulated by the enhanced incentives in the agricultural sector, the privatization of a number of former public enterprises and a rise in directly productive investment, the economy enjoyed an average rate of growth of close to 3 percent annually in 1985-86, only slightly below that of population growth.

This modest resumption of economic growth notwithstanding, financial deterioration rapidly took hold in the second half of 1986. Principal factors were falling world market prices for the three major export crops and a sharp decline in phosphate export sales, coupled with Togo's continuing need to meet exceptionally heavy debt service obligations and, in late 1986, a spurt of extrabudgetary spending by the government largely to reinforce border security. The result was a tripling of the fiscal deficit in 1986-87 (9 percent of GDP in 1987), a similar re-opening of the overall balance of payments deficit (6 percent of GDP in 1987) and a slowdown in the rate of economic growth to only 1.5 percent in 1987, well below that of population growth. The domestic and external deficits were met principally through a rapid accumulation of payments arrears.

In 1988, the government launched major initiatives to reverse this financial deterioration and slowdown in growth. In conjunction with IMF and IDA lending, Paris Club and London Club creditors accorded to Togo a substantial measure of debt relief for 1988 and the first quarter of 1989; the Paris Club subsequently provided further debt relief for the remainder of 1989 and through the first half of 1990.

Under the 1988-89 program, Togo sought to reduce further its budget and balance of payments deficits to permit 5 percent real growth by the mid-1990s. In pursuit of this objective, the government also engaged in an extensive program of structural reforms. A flexible pricing system was instituted for agricultural export crops; the program of rationalization of public enterprises was pursued and a new strategy to guide further privatizations and establish the ground rules for firms remaining in the public portfolio was defined; import and export licensing was largely abolished and a new tariff and fiscal system was put in place; and the investment code was revised.

Togolese economic performance in 1988 showed substantial improvement. Overall growth of the economy reached 4.9 percent, exceeding for the first time in a decade the rate of population growth, and domestic and external deficits were sharply reduced; the ratio of fiscal deficit to GDP declined to 5.2 percent of GDP, while the current account deficit declined to 10.1 percent. Economic performance is estimated to have weakened somewhat in 1989, with real growth declining to 3.7 percent, still positive in per capita terms, as phosphate production stagnated. In the face of slower growth and increased regional competition for transit trade, Togo's fiscal receipts fell short of expectations and the fiscal gap widened slightly to roughly 6.2 percent of GDP in 1989. However, Togo continued to experience balance of payments improvement, with the current account deficit declining further to an estimated 8.7 percent GDP, as import growth remained modest and exports benefitted from higher phosphate prices.

Current Issues and the Medium-Term Outlook

Although Togo has made good progress toward regaining adequate and sustainable rates of growth, the economy is still faced with major structural imbalances, and its growth potential remains to be fully exploited. For the medium term, this growth potential lies principally in agriculture and light industry. In agriculture, despite recent and forecast declines in world market conditions, there is considerable scope for further expansion of coffee, cotton and foodcrop production. In industry, the resumption of activities of several major privatized industrial units and the supply responses of small-scale and medium-scale enterprises to appropriate incentives should lead to relatively rapid increases in output, notably for export.

As a small, open economy, Togo's ability to maintain competitiveness will remain a major determinant of the economy's prospects over the medium term. In agriculture, this means intensified efforts to achieve gains in productivity at all operating levels. In the industrial sector, this will imply close attention to an appropriate enabling conditions conducive for private sector exports. To this end, the government has overhauled the complex system of protection behind which Togo's nascent industrial sector has been emerging in recent years, rationalized the fiscal and tariff regimes, adopted a new investment code and is promoting the establishment of free trade zones.

The medium-term outlook for the Togolese economy is nonetheless fragile. Togo has an exceptionally heavy debt burden (debt outstanding and disbursed equivalent to 82 percent of GDP at end-1989) and is dependent for its export receipts on a small number of primary commodities, several of which confront problematic market prospects. Unemployment and underemployment is an important problem and with a relatively high rate of population growth (3.3 percent), achievement of positive per capita growth rates requires real output increases on the order of 4 percent annually. Togo will also continue to confront tight budget constraints over the medium. With fiscal receipts on the order of 20 percent of GDP, relatively high for Sub-Saharan African countries, there is only limited scope for further revenue increases. In addition, the implications of forecast price movements for the government's budgetary situation cannot be overemphasized. The government can no longer rely on direct export taxation of agricultural and mining sectors, from which it secured as much as 20 percent of its domestic receipts up through 1986. Strict expenditure control is therefore indicated. However, within this constrained fiscal context adequate provision will need to be made for expenditures critical to maintenance of the government's medium term growth objective. Balancing these various budgetary objectives will require careful and effective economic management.

Similar prudence applies to Togo's balance of payments management over the medium term. Togo has benefitted from significant debt forgiveness by Canada, Denmark, France, and Germany and has received substantial debt relief from the Paris Club. Both of these have significantly reduced Togo's debt service burden in recent years. However, scheduled debt service payments are still expected to remain relatively high through the early 1990s, on the order of 20 percent of exports of goods and services, and will constitute a significant burden on the balance of payments and the Treasury in the absence of rescheduling and/or exceptional external assistance. Togo's new rescheduling, which took place under Toronto terms, extends through June 1992, and will provide significant balance of payments relief. In addition, Togo qualifies for non-project support through the Special Program of Assistance for low-income debt-distressed African countries.

Development Strategy

The government's medium-term development objective is to promote growth with equity. To this end, it aims to keep real growth to more than population growth and to give particular emphasis to human resource development and a more formal integration of social dimensions in the process of policy formulation and implementation. To achieve this objective, the government will pursue a strategy that is comprehensive while focusing on the growth potential and constraints of the key sectors — agriculture and light industry. It is a strategy which recognizes that initiatives taken in recent years toward financial stabilization and renewed growth now need to be consolidated and complemented by measures to ensure that the benefits of growth are widely shared.

Under this new phase the government will give continued attention to maintaining macroeconomic balances. In so doing, however, special efforts will be made under public expenditure policy to ensure adequate funding in support of human resource development. Efficiency gains made in both education and health will be used to improve and extend service delivery. In addition, given the pressure of population growth (3.3 percent a year) to increase access to schooling and health services, the allocation of the government's budgetary resources can be expected to be rationalized and increased as appropriate consistent with these priorities. Thus human resource development will be privileged in terms of recurrent and investment expenditure so as to achieve social equity objectives of the adjustment program, including protection of the lowest income segments of the population.

In addition, the government will continue to reduce its direct economic role through a continuation of its program of divestiture of public enterprises and by increasing the autonomy of enterprises targeted to remain in the government's portfolio. Government efforts to promote agricultural production will focus on enhancing the delivery of support services and promoting market opportunities for non-traditional exports. Industrial exports will be encouraged through a favorable enabling environment and the creation of export processing zones. To better take account of social dimensions, the government will develop institutional mechanisms to integrate social concerns into the policy process and reinforce its technical capacities to analyze and evaluate social impacts.

In the current phase of the adjustment process, any direct compensation instruments or transitional measures which might be called for to mitigate social costs of the program will be defined as a consequence of the analytical work initiated within the government to assess social impacts. With respect to the divestiture/privatization program, direct compensation payments made out of enterprise sales proceeds have to date been adequate.

TOGO

Mid-1988 Population (mils.)	3
1988 Per Capita GNP in US$:	370

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	5.3	3.9	1.0	5.0	3.7
Net Indirect Taxes	8.1	13.1	12.1	10.9	11.2	..	..	..	..	..	..
Agriculture	44.7	32.0	27.5	33.6	33.9	33.9	2.6	1.9	5.5	6.4	6.8
Industry	20.9	20.2	24.8	20.3	20.8	22.6	6.2	6.6	-0.8	10.2	3.1
(of which Manufacturing)	9.6	8.7	7.8	7.5	7.8	8.5	..	0.5	-1.1	3.8	10.4
Services	34.4	47.8	47.7	46.1	45.3	43.6	6.6	3.9	-0.9	1.8	1.6
Resource Balance	0.9	0.1	-5.3	-9.8	-5.9	-4.4	..	..	..	..	..
Exports of GNFS	32.0	33.1	51.1	34.1	33.8	34.7	18.0	8.5	-0.8	0.7	2.0
Imports of GNFS	31.1	33.0	56.4	43.9	39.7	39.1	6.9	19.8	0.6	-4.1	1.5
Total Expenditures	99.1	99.9	105.3	109.8	105.9	104.4	2.9	7.8	1.4	2.7	3.4
Total Consumption	76.7	78.1	75.2	89.6	85.7	84.1	3.0	5.6	3.0	2.3	3.1
Private Consumption	65.3	59.8	52.8	70.9	68.9	69.2	1.8	3.7	4.2	3.6	5.6
General Government	11.4	18.3	22.4	18.6	16.8	14.9	7.9	10.9	-0.9	-2.7	-6.7
Gross Domestic Investment	22.4	21.7	30.1	20.2	20.2	20.4	3.3	12.2	-3.5	4.6	4.6
Fixed Investment	..	..	29.9	17.9	18.6	19.6	..	..	-4.0	8.5	9.3
Changes in Stocks	..	..	0.2	2.3	1.6	0.8	..	..	..	..	..
Gross Domestic Saving	23.3	21.9	24.8	10.4	14.3	15.9	1.5	2.2	-8.8	43.2	15.7
Net Factor Income	-4.6	-1.8	-1.5	-4.3	-4.2	-4.3	..	..	..	..	..
Net Current Transfers	0.0	0.2	0.0	0.2	0.6	0.0	..	..	..	..	..
Gross National Saving	18.7	20.3	23.4	6.3	10.7	11.7	2.2	2.1	-12.7	78.4	12.2

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	178	273	371	375	394	408	5.3	3.9	1.0	5.0	3.7
Capacity to Import	47	66	151	128	135	142	4.9	10.1	-1.2	5.2	5.5
Terms of Trade Adjustment	20	-16	6	0	6	11	..	..	..	..	..
Gross Domestic Income	198	258	377	375	400	419	2.5	4.4	0.8	6.6	4.9
Gross National Product	171	270	367	359	378	391	5.7	3.9	0.6	5.3	3.5
Gross National Income	191	254	372	359	383	402	2.9	4.4	0.4	6.9	4.8

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	69.7	96.0	99.9	100.0	99.9	99.0	4.3	11.9	3.5	-0.1	-0.8
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	64.7	94.6	98.1	100.0	103.2	105.4	3.1	8.1	5.7	3.2	2.2
Implicit Expenditures Defl.	64.4	91.8	96.5	100.0	101.7	102.8	6.1	9.4	5.7	1.7	1.1

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.8	2.5	3.4
Labor Force	..	..	..
Gross Natl. Income p.c.	-0.9	1.8	-2.8
Private Consumption p.c.	-1.9	1.2	0.8
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.3	5.0	0.6
Marginal Savings Rates:			
Gross National Saving	25.3	30.4	-182.1
Gross Domestic Saving	13.9	31.3	-95.9
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	78.1	75.6	73.0	..
Industry	8.5	9.2	9.9	..
Services	13.3	15.2	17.1	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.MET.P	105.9	91.8	85.2	100.0	124.5	125.7	136	93	83	86	121	141
X.BEV.COCOA	110.6	74.0	143.6	100.0	82.4	49.6	39	15	27	29	22	12
X.BEV.COFFEE	81.8	90.9	76.4	100.0	100.9	116.4	24	27	25	28	23	22
X.OAGRI.COTTON	17.2	67.6	101.3	100.0	95.0	111.9	8	26	30	31	42	39
Manufactures	460.8	335.0	114.3	100.0	80.6	93.5	121	40	21	24	27	26
Residual	65.9	148.9	124.0	100.0	34.3	53.8	153	81	84	97	90	90
Total Exports FOB	113.6	93.2	86.5	100.0	122.3	123.9	480	282	270	295	325	330
F. Merchandise Imports												
Food	115.2	98.2	95.6	100.0	103.5	99.8	..	87	92	109	116	107
Fuel and energy	184.5	172.5	103.3	100.0	95.0	114.0	..	31	20	22	21	25
Other Consumer Goods	116.6	86.7	95.6	100.0	99.9	101.0	..	98	116	138	143	139
Other Intermed. Goods	119.2	123.6	133.7	100.0	102.9	106.0	..	58	68	58	62	62
Capital goods	96.8	111.7	155.5	100.0	78.3	80.4	..	76	112	83	68	67
Total Imports CIF	116.1	104.6	113.6	100.0	96.5	97.9	..	350	407	409	410	400

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	85.7	143.5	108.6	100.0	106.9	113.9
Merch. Imports Price Index	81.0	121.9	101.4	100.0	102.2	105.3
Merch. Terms of Trade	105.8	117.8	107.1	100.0	104.7	108.2

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	550	369	457	414	462	468
Merchandise (FOB)	476	282	352	282	325	330
Non-Factor Services	74	87	106	131	138	139
Imports of Goods & NFS	691	436	591	556	555	528
Merchandise (FOB)	524	304	412	362	352	342
Non-Factor Services	167	132	179	194	202	187
Resource Balance	-141	-67	-134	-143	-92	-60
Net Factor Income	-40	-38	-40	-48	-50	-58
(interest per DRS)	19	38	43	29	68	43
Net Current Transfers	1	8	10	3	8	0
(workers' remittances)	10	15	21	14	15	..
Curr. A/C Bal. before Off. Transf.	-181	-97	-164	-188	-134	-117
Net Official Transfers	86	69	91	71	72	79
Curr. A/C Bal. after Off. Transf.	-95	-27	-72	-117	-62	-39
Long-Term Capital Inflow	71	27	20	93	55	88
Direct Investment	42	17	7	12	12	..
Net LT Loans (DRS data)	73	4	5	19	50	77
Other LT Inflow (Net)	-45	7	9	62	-7	11
Total Other Items (net)	23	26	22	-4	-37	-26
Net Short Term Capital	23	26	39	3	-39	-15
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	0	0	-17	-7	2	-11
Changes in Net Reserves	2	-26	30	28	45	-24
Net Credit from the IMF	14	13	18	-2	-3	..
Other Reserves Changes	-12	-39	12	30	48	-24
As Share of GDP:						
Resource Balance	-12.4	-8.9	-12.8	-11.4	-6.8	-4.4
Interest Payments	1.7	5.1	4.1	2.3	5.0	3.2
Current Account Balance	-15.9	-12.9	-15.7	-15.0	-9.8	-8.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	78	297	333	355	232	285
Reserves incl. Gold (mil. US$)	85	301	338	361	237	290
Official X-Rate (LCUs/US$)	211.28	449.26	346.30	300.54	297.85	319.01
Index Real Eff. X-R Base 1980	100.00	80.64	87.02	86.53	81.60	75.78
GDP (millions of current US$)	1,136	753	1,046	1,247	1,364	1,349

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	31.4	30.0	23.8	23.9	22.7	8.9	-3.7	-15.0	8.8	0.5
Current Expenditures	..	24.7	22.9	23.1	21.8	21.4	9.6	-32.4	4.6	2.2	3.7
Current Budget Balance	..	6.7	7.1	0.7	2.1	1.3	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	-15.9	19.7	-36.3	..	..
Capital Expenditures	..	13.3	14.4	7.9	7.3	7.6	..	52.1	..	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-6.6	-7.3	-7.2	-5.2	-6.3	..	..	..	..	..
Official Capital Grants	..	4.9	4.5	2.2	2.0	2.4	..	0.6	..	..	..
External Borrowing (net)	..	1.6	1.2	2.6	..	..	..	-6.8	..	..	..
Domestic Non-Bank Financing	..	-0.9	-0.3	..	..	..	..	..	..	..	..
Domestic Bank Financing	..	2.2	4.5	0.3	..	..	..	-7.3	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	73	4	5	19	50	77	895	788	885	1,048	1,067	1,106
Official Creditors	32	15	27	27	50	77	484	702	819	984	1,013	1,050
Multilateral	38	31	48	19	50	73	119	293	365	430	465	482
of which IBRD	0	-4	-4	-5	-7	-7	4	26	22	21	18	12
of which IDA	13	30	49	20	49	38	43	161	223	267	306	340
Bilateral	-6	-16	-21	9	0	3	365	410	454	554	548	568
Private Creditors	41	-12	-23	-8	0	0	411	86	67	64	54	56
Suppliers	1	-1	-1	-1	0	0	59	2	2	1	1	1
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	73	4	5	19	50	77	895	788	885	1,048	1,067	1,106
IMF Credit	22	4	8	-18	-3	-1	33	74	90	85	78	75
Net Short-Term Capital	23	26	39	3	-39	-15	113	74	89	102	66	100
Total incl. IMF & Net ST	118	34	51	5	8	62	1,041	936	1,065	1,235	1,210	1,282

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.39	3.24	2.45	2.03	1.69	1.07
2. IDA as % of Total	4.82	20.46	25.13	25.49	28.71	30.74
3. IBRD+IDA as % of Total	5.21	23.70	27.58	27.52	30.40	31.80
Share of LT Debt Service						
1. IBRD as % of Total	0.65	6.36	4.57	11.77	9.46	9.28
2. IDA as % of Total	0.65	1.70	1.58	4.15	3.30	4.16
3. IBRD+IDA as % of Total	1.30	8.07	6.15	15.92	12.76	13.43
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	154.20	193.10	174.94	232.40	213.23	226.26
2. IMF Credit/Exports	5.60	18.19	17.84	18.92	15.57	15.42
3. Short-Term Debt/Exports	19.51	18.14	17.63	22.69	13.13	20.54
4. LT+IMF+ST DOD/Exports	179.31	229.42	210.41	274.01	241.94	262.22
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	78.75	104.68	84.62	84.00	78.20	81.97
2. IMF Credit/GDP	2.86	9.86	8.63	6.84	5.71	5.59
3. Short-Term Debt/GDP	9.96	9.83	8.53	8.20	4.82	7.44
4. LT+IMF+ST DOD/GDP	91.57	124.37	101.78	99.04	88.72	95.00
Debt Service /Exports						
1. Public & Guaranteed LT	7.96	21.57	25.06	13.37	18.17	14.77
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	7.96	21.57	25.06	13.37	18.17	14.77
4. IMF Repurchases+Serv. Chgs.	0.02	3.80	2.35	5.21	6.44	5.58
5. Interest only on ST Debt	2.48	1.42	1.11	1.31	1.16	1.21
6. Total (LT+IMF+ST Int.)	10.46	26.79	28.51	22.29	28.01	21.70

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Tonga

Tonga is an archipelago of 171 coral and volcanic islands in the South Pacific Ocean. It has a population of about 100,000 concentrated on three main island groups. Because of emigration the rate of population growth has been low: about 0.8 percent per annum in the last 15 years. Smallholder agriculture is the principal economic activity absorbing 50 percent of the labor force and supplying the bulk of Tonga's exports, of which copra is the most important, followed by bananas, vanilla and fish. Although national income accounts still require development, and it is difficult to obtain a precise measure of nonmonetized subsistence activities, per capita GNP is estimated to be around US$800 (1988).

Through conservative macroeconomic management, Tonga has largely avoided the imbalances that can beset small island economies with a narrow resource base. Meanwhile, a succession of Five Year Plans has helped to structure the development effort and moved the country some way toward its goals: raising exports; diversifying agricultural output; expanding manufacturing, fisheries and tourism; and developing human resources.

The basic needs of the population are reasonably well met from subsistence activities, and the government and churches provide more than adequate health and education services. Life expectancy at birth is 66 which compares favorably with the average for lower middle-income developing countries. The education system provides compulsory schooling for all children between the ages of 6 and 14. Tonga's adult literacy rate is high; however, the majority of school leavers, especially from secondary schools, tend to be educated in the liberal arts and as a consequence, some technical skills are in short supply.

Tongans have relatively easy access to labor markets in larger countries and net emigration is quite high. It is estimated that 35,000-45,000 Tongans currently reside in New Zealand, Australia and the United States. Remittances from these migrants constitute a large portion of foreign exchange receipts—more than three times the value of merchandise exports during 1987/88 and 1988/89. Emigration, while also serving to reduce employment pressures, has not been without its costs to the domestic economy, especially through the loss of skilled and educated workers.

Developments in the 1980s

In the first half of the eighties (1981/82-1984/85),[1] real growth in the economy averaged about 3.0 percent per annum, slowing slightly from the 3.7 percent per annum rate achieved during the later 1970s. Much of this growth came from the expansion of infrastructure and social services. A large public sector investment program, to develop basic infrastructure such as air transport and shipping facilities as well as to provide basic social services, stimulated the construction and service sectors. Substantial private investments in housing improvements also contributed to growth in finance and real estate activity.

Agriculture, the largest and most important sector, has experienced negligible growth throughout the eighties. The reasons can be found in the performance of the copra economy, which accounts for about 60 percent of commodity export earnings, and which, for the 1981-85 period, stagnated in volume terms. This occurred despite high copra prices prevailing during the early eighties. However, vanilla production and fishing have done well in recent years, with both activities growing rapidly in volume terms (about 22 percent per annum) from a small base between 1980 and 1985. The performance in these two subsectors indicates the willingness of Tongans to embrace new and more lucrative agricultural activities. Banana production has also been improving for several years, as a result of a rehabilitation scheme sponsored by the New Zealand government.

The manufacturing sector, which is small in relation to GDP (less than 10 percent), has consistently

1. Fiscal year ends June 30 of specified year.

grown faster than the economy as a whole. Activities in this sector are dominated by coconut processing—an oil mill and a desiccated coconut factory—but other industrial activities have shown rapid growth and have become an important source of new employment. The government has fostered these developments through combining Tonga's resources, which include political stability, a well educated labor force, and low wages, with a very attractive investment climate and incentive structure.

Inflation has been extremely variable in the past. The rate of inflation was less than 2 percent in 1984/85 but rose to almost 31 percent in 1985/86 before coming down to 8 percent in the following years. The Tongan currency, the pa'anga, is kept at par with the Australian dollar; however the main influence on prices is the changing value of the pa'anga relative to the New Zealand dollar, as in 1984-86. Also, because of Tonga's small size and narrow resource base, natural disasters such as droughts and cyclones can cause acute shortages of domestic foodstuffs and cause periods of price instability.

In the 1980s, in general, the balance-of-payments situation was comfortable. A very large trade deficit—imports are more than five times exports—was been offset by substantial inflows of transfer payments, both private and official. The current account balance has, therefore, generally been in surplus since 1980/81, allowing an increase in international reserves to over five months of imports.

The country's fiscal position has also been relatively stable. Total budgetary receipts and expenditure each accounted for about 45 percent of GDP in 1982/83-1985/86, with tax revenues at about 18 percent of GDP and non-tax revenues at around 8 percent supporting current expenditures averaging 24 percent of GDP. External grants and concessional loans, averaging 20 percent of GDP, financed most development spending. Overall budgetary surpluses were registered in 1982/83 and 1983/84 and deficits of 4 percent and 1 percent in the succeeding years. The financial position weakened in 1986/87 as expenditures increased more than receipts, partly because of changes in the tax regime to diversify the tax base and encourage savings and investment, resulting in a budget deficit equivalent to 4 percent of GDP, which was financed by a sizeable external commercial loan. Current expenditures have risen through efforts to maintain the quality of government services in transport, health and administration, support copra producer prices and increase recurrent expenditures associated with externally financed development projects.

In 1986/87, real GDP growth is estimated to have been maintained at about 3 percent. Agricultural output was depressed because copra purchase prices, while high relative to world prices, were apparently not enough to encourage growers. Supply shortages at copra processing plants adversely affected overall industrial performance. Most growth occurred in the construction and services sectors. Exports remained at about 8 percent of GDP but the current account was positive despite a widening of the trade deficit, primarily because of increased private remittances. External commercial borrowing, which is exceptional for Tonga, resulted in a substantial surplus also on the capital account.

In a reversal of recent trends, real GDP declined by about 2 percent in 1987/88 in severe drought conditions which reduced agricultural output by 10 percent. Coconut production and processing were also affected by low recent market prices for copra. Buoyant conditions in other manufacturing and in the construction sector, as tourism and transport facilities were being expanded, a cultural center was completed, and housing investment increased, could not offset this decline. Inflation increased to 11 percent in 1987/88, primarily because of shortages in domestic food supplies. The balance of payments weakened as import demand increased and commodity exports declined, and a current account deficit, equivalent to 13 percent of GDP, was registered for the first time in several years.

Budgetary performance nevertheless strengthened in 1987/88 when expenditure restraints were imposed and domestic revenues reached 30 percent of GDP, assisted by strong growth in income tax and other receipts. There was some slackening in development expenditures on major projects. Current expenditures, which had grown rapidly since 1983/84, declined in real terms, and a budget surplus of close to 2 percent of GDP was secured. The government has now introduced measures to subject new expenditure requests beyond a specific limit to review by the Legislative Assembly. This should help strengthen discipline over current spending and complement the financial policies needed to prevent higher inflation and improve the external payments position.

In 1988/89, real GDP growth is estimated to have risen to 3.6 percent while inflation was unusually low at 4 percent, partly because of the appreciation of the pa'anga, still tied to the Australian dollar. The budget moved into slight deficit, about 1 percent of GDP, as recurrent and development expenditures increased from 44 to 46 percent of GDP. Merchandise exports were significantly higher than in recent years though still amounting to only US$9 million; and with net remittances (US$25 million) and aid grants

(US$11 million) a small overall balance of payments deficit was recorded.

The upturn in economic activity in 1988/89 reflected mainly activities relating to the King's birthday celebration and the South Pacific Games. Since the effects of these activities are expected to be transitory, the economy is likely to slow down in the 1990s without a determined effort to strengthen the productive sectors.

External Debt

External debt (MLT) amounted to about US$44 million or 50 percent of GDP at the end of 1987/88 but the debt service ratio has remained low, less than 3 percent of the value of export of goods and services, because of the highly concessional terms of borrowing. Interest rates are in the range of 0-2 percent and repayment periods have been in the region of 10-40 years. Apart from commercial borrowings in 1986/87, accounting for 22 percent of the debt, the other major exception to the established rule was a shipping loan in 1980, now largely repaid.

Development Issues and Prospects

The steady economic performance displayed by Tonga for most of the 1970s and 1980s reflects sound management by a government committed to economic stability and progress within the limitations imposed by the country's small size, resource constraints and dependence on external support, including remittances. As indicated above, growth in recent years has come mainly from construction, including infrastructure development, and the services sectors. In the future, further economic development will need to be based on agriculture, manufacturing and tourism. Given the disappointing overall performance of the agricultural sector over the last decade and the importance of this sector in the economy, it is this area that requires the focus of attention.

Initially, at least, expansion of agricultural production will have to be led by the traditional cash crops, including vanilla; later, more of the stimulus will have to come from new commodities such as spices and cocoa. Fisheries development has been promoted through the construction of a deep sea fishing fleet. Growth in the manufacturing sector can be further strengthened, both in agricultural processing and production for overseas markets to which Tonga has preferred access. Already, nearly 40 percent of production of the Small Industries Center is for export; a larger center is planned. Tourism development remains a major development option. Receipts have more than doubled in five years and gross foreign exchange earnings are now nearly twice those from merchandise exports.

Tonga is thus demonstrating an ability to diversify through exporting which can be expanded and consolidated through increased foreign and domestic investment. More market-oriented interest rates are required to promote saving, improve resource allocation, and promote new private investment. Changes in interest-rate policies are being introduced. A more flexible exchange rate policy, also under consideration, would reinforce these positive developments.

Project implementation in the public sector has been subject to some delays, which can be overcome partly through improved aid coordination but will also require measures to strengthen implementation capacity. Planning and efficient resource allocation are areas needing special government attention. A sound data base, coordination between economic departments and growth of the capacity within key agencies to develop and implement projects would contribute toward a more dynamic development process. Progress in these areas, and improvements in the framework for planning and the criteria for selecting among investment alternatives would certainly strengthen economic management. Tonga also requires, for the longer term, a development strategy and related policy framework which will guide it through the process of combining domestic and available external resources toward providing, within the country, the range of opportunities its people need.

TONGA

Mid-1988 Population (000)	97
1988 Per Capita GNP in US$:	830

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rates(% per annum) (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*e/ 1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	3.4	-2.1	3.6
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	..
Agriculture	..	..	33.4	..	..	..	..	-1.0	..	-10.8	..
Industry	..	..	12.5	..	..	..	..	13.6	..	5.6	..
(of which Manufacturing)	..	..	6.1	..	..	..	..	6.5	..	4.8	..
Services	..	..	40.8	..	..	..	..	5.9	..	4.0	..
Resource Balance	..	..	-34.4	..	..	..	..	..	..	..	..
Exports of GNFS /1	..	..	30.1	..	..	..	..	..	..	..	..
Imports of GNFS	..	..	64.4	..	..	..	..	..	..	..	..
Total Expenditures	..	..	134.4	..	..	..	..	..	..	..	..
Total Consumption	..	..	105.7	..	..	..	..	..	..	..	..
Private Consumption	..	..	91.0	..	..	..	..	..	..	..	..
General Government	..	..	14.7	..	..	..	..	..	..	..	..
Gross Domestic Investment	..	..	28.7	..	..	..	..	..	..	..	..
Fixed Investment	..	..	26.1	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	2.6	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	..	-5.7	..	..	..	..	..	..	..	..
Net Factor Income	..	..	..	3.6	3.3	..	..	..	..	..	..
Net Current Transfers	..	..	23.4	30.3	22.9	..	..	..	..	..	..
Gross National Saving	..	..	34.5	..	..	..	..	..	..	..	..

In thousands of T$ (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	..	..	..	..	..	..	..	3.4	-2.1	3.6
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	..	..	..	..	..	..	..	..	3.0	-2.5	..
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64) /2	48.0	78.5	95.5	100.0	109.9	..	..	11.8	10.8	9.9	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	..	77.6	93.0	100.0	111.2	..	..	..	8.6	11.2	..
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.4	0.2	1.4
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp) /3	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	..	..	..
ICOR (period averages) /4	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	..	..	..	..
Industry	..	..	..	..
Services	..	..	..	..
Total	100.0	100.0	100.0	100.0

Notes:

1/ Goods and nonfactor services.
2/ Denotes the line number in the country pages of the International Financial Statistics, IMF.
3/ At market prices.
4/ Incremental capital-output ratio.
e/ Estimated data.

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.COCONUT PRODUCT	..	..	..	..	..	..	..	5	2	1	..	..
X.FOOD.VANILLA BEANS	..	..	..	..	..	..	..	1	1	1	..	..
X.FOOD.BANANA	..	..	..	..	..	..	..	1	1	1	..	..
X.FOOD.FISH	..	..	..	..	..	..	..	1	1	1	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	7	2	2	2	..	..
Total Exports FOB	..	..	..	..	..	..	7	9	6	6	..	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	9	9	11	..	..
Fuel and energy	..	..	..	..	..	..	..	4	5	5	..	..
Other Consumer Goods	..	..	..	..	..	..	..	12	14	16	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	4	5	6	..	..
Capital goods	..	..	..	..	..	..	..	9	9	10	..	..
Total Imports CIF	..	..	..	..	..	..	..	38	41	46	..	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	14	23	21	26	25	..
Merchandise (FOB)	7	8	6	7	6	..
Non-Factor Services	7	15	15	19	18	..
Imports of Goods & NFS	33	48	46	54	68	..
Merchandise (FOB)	28	33	31	37	44	..
Non-Factor Services	5	15	16	17	24	..
Resource Balance	-18	-24	-25	-28	-43	..
Net Factor Income	2	3	3	4	5	..
(interest per DRS) /5	0	0	0	0	0	34
Net Current Transfers	12	17	22	23	21	..
(workers' remittances)	7	15	20	21	20	..
Curr. A/C Bal. before Off. Transf.	-3	-5	-1	0	-17	..
Net Official Transfers	0	3	3	7	6	..
Curr. A/C Bal. after Off. Transf.	-4	-2	2	6	-11	..
Long-Term Capital Inflow	2	-1	-2	-1	-4	..
Direct Investment	0	0	0	0	0	..
Net LT Loans (DRS data)	13	1	5	6	3	37
Other LT Inflow (Net)	-11	-2	-7	-7	-6	..
Total Other Items (net)	-2	0	-3	2	13	..
Net Short Term Capital	5	6	2	0	8	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-7	-6	-5	1	4	..
Changes in Net Reserves	4	2	3	-7	2	..
Net Credit from the IMF	0	0	0	0	..	..
Other Reserves Changes	4	2	3	-7	2	..
As Share of GDP:						
Resource Balance	-35.1	-39.5	-36.6	-37.8	-49.6	..
Interest Payments	0.0	0.3	0.4	0.5	0.5	..
Current Account Balance	-6.4	-7.7	-0.8	-0.4	-19.5	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	14	27	22	28	29	24
Reserves incl. Gold (mil. US$)	14	27	22	28	29	24
Official X-Rate (LCUs/US$)	0.88	1.43	1.50	1.43	1.28	1.26
Index Real Eff. X-R Base 1980	100.00	114.08	113.90	106.50	117.00	122.66
GDP (millions of current US$)	52	61	69	73	87	..

Notes:

5/ The Bank's Debtor Reporting Service.

I. Budget	Share of GDP (%) 1980	1985	1986	1987	1988	e/ 1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	27.5	26.7	26.8	29.9	..	..	19.5	11.0	..	..
Current Expenditures	..	24.8	25.9	27.0	27.0	..	..	28.6	11.7	..	..
Current Budget Balance	..	2.6	0.8	-0.2	2.9	..	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	26.6	18.2	22.6	17.0	..	..	-15.5	44.4	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-23.9	-17.4	-22.8	-14.1	..	..	..	..	..	..
Official Capital Grants	..	20.0	16.5	19.3	16.9	..	..	2.5	26.8	..	..
External Borrowing (net)	..	1.8	0.1	6.4	0.9	..	..	..	..	..	..
Domestic Non-Bank Financing	..	0.2	0.1	0.5	..	..	..	..	..	..	..
Domestic Bank Financing	..	1.9	0.7	-3.4	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	13	1	5	6	3	27	19	24	32	44	44	44
Official Creditors	13	1	1	2	3	19	19	24	28	35	35	35
Multilateral	1	1	1	2	2	0	3	9	10	13	14	15
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	12	0	0	0	0	19	16	15	18	22	20	20
Private Creditors	0	0	4	4	0	8	0	0	5	10	9	9
Suppliers	0	0	4	4	0	8	0	0	5	10	9	9
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	10	0	0	0	0	0	0
Total LT	13	1	5	6	3	37	19	24	32	44	44	44
IMF Credit	0	0	0	0	0	0	0	0	0	0	0	0
Net Short-Term Capital	5	6	2	0	8	..	0	1	1	1	1	0
Total incl. IMF & Net ST	18	6	7	6	11	..	19	24	33	45	44	44

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD /6						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	76.35	56.55	73.10	85.56	84.69	..
2. IMF Credit/Exports	0.00	0.00	0.00	0.00	0.00	..
3. Short-Term Debt/Exports	0.00	1.68	1.13	0.97	1.16	..
4. LT+IMF+ST DOD/Exports	76.35	58.24	74.23	86.52	85.85	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	36.27	38.30	46.70	60.81	50.25	..
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	0.00	..
3. Short-Term Debt/GDP	0.00	1.14	0.72	0.69	0.69	..
4. LT+IMF+ST DOD/GDP	36.27	39.44	47.42	61.49	50.94	..
Debt Service /Exports						
1. Public & Guaranteed LT	0.40	1.68	2.04	1.93	2.32	..
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	..
3. Total Long-Term Debt Service	0.40	1.68	2.04	1.93	2.32	..
4. IMF Repurchases+Serv. Chgs.						..
5. Interest only on ST Debt		0.24			0.19	..
6. Total (LT+IMF+ST Int.)	0.40	1.93	2.49	1.93	2.51	..

Notes:

6/ Debt outstanding and disbursed.
e/ Estimated data.

Trinidad and Tobago

The structure and performance of Trinidad and Tobago's economy have been linked closely to the fortunes of oil. Even prior to 1973, the island economy was dominated by the oil sector, which represented one-fifth of domestic value added. On the strength of its petroleum resources, the country was able to attain a high standard of living, including relatively high levels and quality of educational and social services. GNP per capita reached US$6,450 in 1982. Since then, however, as oil prices declined, GNP per capita dropped to US$3,490 in 1988. The economic policies pursued during the oil-boom years favored an inward-looking type of development. Manufacturing, other than oil refining, was heavily dependent on protection and was relatively uncompetitive. Production and consumption subsidies fueled domestic demand and supported inefficient production structures in the non-oil sectors. These policies increased the country's dependence on and allocation of resources to the oil sector, and significantly diminished the potential for diversification. The government that took office in 1986 faced an economy with recurring negative growth, burgeoning unemployment and significant distortions.

Economic Performance

During the years 1974-82, the two surges in oil prices enabled Trinidad and Tobago to reap impressive gains in incomes, employment, public revenues and foreign exchange. Real GDP grew at an annual average rate of over 6 percent, and the increase in oil earnings produced large fiscal and balance of payments surpluses. Central government savings averaged 18 percent of GDP and gross foreign exchange reserves averaged ten months of rapidly increasing imports. Fiscal and monetary policies during these years accommodated the oil-based expansion. After an initial cautious saving of surplus earnings abroad, the government embarked a rapid increase of capital expenditures in heavy industry and infrastructure and developed a complex array of subsidies, price controls, and import protection which undermined agriculture, manufacturing and tourism. The government's investment and redistributive policies resulted in an overextended public sector. State enterprises and other governmental agencies mushroomed and government subsidies and current transfers grew from 3 percent of GDP in 1977 to 16 percent of GDP by 1983 (US$110 million to US$1,285 million).

The economic setback began in 1983 when falling oil prices compounded a domestic trend of falling petroleum output from depleted oil wells. The petroleum sector's output shrank sharply. Since 40 percent of government revenues derived from oil, and public sector spending underpinned growth in the non-oil economy, these developments triggered a dramatic decline in economic performance. Real GDP fell annually for the next six years, culminating in a decline of about 7 percent in 1987 and a further 4.3 percent in 1988. The oil price decline, coupled with the evolution of international prices and exchange rates, led to a severe deterioration in the country's terms of trade of about 40 percent between 1980 and 1987.

The government initially failed to respond adequately to the mounting pressures for adjustment. Instead of improving the economy's competitiveness and promoting the production of non-oil tradables, it became increasingly protectionist. Its first line of attack was to introduce restrictive import licensing and exchange controls in 1983. Fiscal expansion continued in the first years of the economic setback as the government attempted to maintain living standards by stimulating aggregate demand. The public sector registered overall deficits averaging 9 percent of GDP in 1983-85 compared with surpluses of about 5 percent during 1974-82. The deficits were increasingly financed by recourse to the central bank. By 1986, following the collapse of oil prices, all other macroeconomic variables reflected the deterioration. Unemployment which had been 10 percent of the labor force in 1982 reached 18 percent. Government savings turned from a surplus equivalent to 20 percent of GDP in 1981 to a deficit equivalent to 7 percent, severely curtailing capital expenditures, which dropped from

18 percent of GDP in 1981 to 6 percent. The balance of payments current account changed from a surplus equivalent to 6 percent of GDP in 1981 to a deficit equivalent to 9 percent, despite a severe compression of imports. The country's once comfortable cushion of gross foreign exchange reserves was also rapidly depleted.

Government Response to the Crisis

In response to the steady drain on the foreign exchange reserves, the authorities devalued the T&T dollar in December 1985. However, this action was not accompanied by complementary monetary and fiscal policies, and the predevaluation exchange rate was retained for essential goods. The rate was only unified at the beginning of 1987 when a new government took office. The new government also began to address the severe fiscal imbalances. On the revenue side, taxes were increased, and on the expenditure side, government suspended cost of living allowances and annual merit increases for public servants, and reduced production and consumption subsidies as well as transfer payments to the state enterprises. By 1988, government subsidies and current transfers had been reduced to 12 percent of GDP. The government also launched in 1987 a number of thorough-going reviews of the operations of the state enterprises aimed at raising their efficiency and reducing their dependence on the budget. In light of the continued deterioration of the foreign reserves position, in August 1988, the T&T dollar was devalued by 15.3 percent which, together with the depreciation of the US dollar, contributed to a 6 percent improvement in the real exchange rate compared to its 1976 level. The government also adopted a stabilization program and obtained debt rescheduling through the London and Paris Clubs.

Development Issues

The major development issues confronting the country stem from the dominance and decline of its oil sector and from the distortions induced by the 1974-82 policies. The evolution of the real exchange rate associated with the high oil export earnings rendered agriculture and manufacturing uncompetitive, and the policies adopted to support these sectors fostered an inefficient agriculture and manufacturing. The current real exchange rate offers an opportunity for these sectors to improve their performance and become more export oriented. Given their small size within the economy, however, it will require the maintenance of export competitiveness over the medium to longer term, for these sectors to make a major impact on growth.

A large and inefficient public sector redistributed the oil gains. The accompanying large subsidies to consumers and state enterprises fostered a pattern of high consumption; the private sector was not encouraged to save and invest; and uneconomic pricing of public services and private goods resulted in misallocation of economic resources.

The Medium-Term Program

The government has formulated a medium-term program which is part of a longer term planning framework for restructuring the economy. A realistic exchange rate policy for maintaining export competitiveness and improved fiscal management represent the heart of the government's strategy to correct external and internal imbalances and set the stage for renewed growth. The authorities have relaxed further the foreign exchange allocation system with a view to eliminating it in 1990, and have indicated their intention to pursue a flexible exchange rate policy in order to maintain export competitiveness. These policies are to be complemented with improved incentives for private sector investment.

To ensure attainment of the stabilization objectives, the government in 1989 cut public service salaries by 10 percent and adopted an employment reduction program, through which it expects to shed about 15 percent of its staff over three years. A critical element of the adjustment strategy is reducing the public sector's command of the economy's resources. The government has begun this process by rationalizing the state enterprise sector, closing down some enterprises, divesting others and subjecting those that remain to strict financial discipline and accountability thus reorienting them toward a more commercial outlook. Within the central administration also, steps are being taken to streamline and strengthen the administrative processes, including adopting a more rigorous approach to formulating and implementing the public sector investment program.

The weakening of the petroleum sector has placed a premium on diversifying the export base. The government recognizes that the inward-looking trade policies that served in the 1970s, when the country did not face an effective external constraint to its development, have proven inappropriate in the economic environment of the 1980s. If it is to grow faster, the economy must achieve a closer integration into the world economy on a more diversified basis. The program includes a phased dismantling of import restrictions and a medium-term tariff reform to raise the efficiency of domestic production and eliminate the anti-export bias in the trade regime. The authorities will also strengthen export incentives, with emphasis on enabling exporters to obtain their imported inputs and raw materials at world prices.

While the government will be reducing its role in the provision of goods and services, it is taking steps to enhance the business and investment environment for the private sector. A comprehensive tax reform is being introduced in two phases during 1989 and 1990. It will simplify the tax system for both direct and indirect taxes, reduce marginal tax rates and provide more favorable treatment for dividends, broaden the tax base by eliminating certain allowances, address equity concerns by replacing some deductions with tax credits and introduce value added taxation. Most price controls have been dismantled, the financial markets have been liberalized, and the regulatory framework for investment attraction is under review.

In 1988 the government revised the petroleum tax regime with a view to increasing the incentives for production. It has also launched a major program of offering new land and marine blocks for oil exploration by private investors; and it intends to rationalize the institutional structure of the petroleum sector by consolidating and reorganizing the eight state-owned enterprises and several government ministries and other agencies involved. Together with the incentives mentioned above, these measures are expected to raise output and exports and increase the efficiency of the industry. The strategy for the heavy industry sector, which includes petrochemicals and steel, is to enhance efficiency through programs for financial restructuring and management strengthening, consistent with the overall state enterprise reform program, and to reduce government's involvement.

In the manufacturing and agriculture sectors, the medium-term strategy depends largely on fostering an appropriate incentive framework. The devaluations and generally declining activity levels over recent years have sharply reduced real and nominal wages, increasing the flow of labor to agriculture as well as the competitiveness and viability of formerly unattractive activities. In addressing the ills of the uneconomic sugar industry, the government has designed a plan for phasing down over five years the production of sugar by the sugar company, CARONI. Highlights of the plan include withdrawing all sugar cane production from CARONI (leaving it to small farmers) and allocating portions of CARONI lands to farmers.

In the search for alternative sources of foreign exchange earnings and employment, the tourism sector is now attracting greater official attention. The government has invested in high return infrastructure projects for runway extension and a deepwater harbor in Tobago, the tourist island, and has begun to liberalize airline access to it.

The government believes that the social dimensions of the adjustment would have to be addressed in parallel in order to ameliorate the short-term impact of the adjustment on the poor and vulnerable groups, and is including measures with assistance from the Bank to strengthen its social policies and programs with special emphasis on targeting and on youth unemployment.

The reform efforts notwithstanding, Trinidad and Tobago's return to sustained growth is likely to be gradual, and will have to be mostly generated by external demand and propelled by foreign investment. Without a sharp increase in oil prices, growth will initially have to depend mostly on the ability to raise production of petroleum and its derivatives. There is also scope for expanding the petrochemical base, but both oil and petrochemical expansion require long gestation periods. The prospects for improved performance of nontraditional exports are good. The importance of a competitive environment for these is demonstrated by the strong growth in exports of nontraditional manufacturing and agriculture following the December 1985 devaluation. In sum, even with an improved policy and incentive environment, lead time is required for restoring adequate and sustained growth. The economic decline is expected to bottom out in 1990, and growth to recover gradually. The external current account balance which registered a deficit of 3.8 percent of GDP in 1989 is also projected to improve steadily.

External Debt

Trinidad and Tobago experienced debt servicing problems in 1988. The public and publicly guaranteed external debt had doubled between 1982 and 1988, reaching US$1.7 billion or 38 percent of GDP. A rising share of the debt was denominated in Japanese Yen and European currencies, and the debt service had risen from 7 percent to 11.6 percent of exports of goods and services during 1982 to 1988. For the medium term, the authorities are adopting a prudent debt management strategy with increased reliance on multilateral or bilateral financing and closer monitoring of the external borrowing of the state enterprises.

In 1989, the Bank's share in Trinidad and Tobago's outstanding and disbursed public and publicly guaranteed external debt was 1.4 percent. Its share in the country's total debt service obligations was 3.3 percent.

TRINIDAD AND TOBAGO

Mid-1988 Population (mils.)	1
1988 Per Capita GNP in US$:	3,500

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1985-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	3.9	6.0	-4.4	-4.3	-3.7
Net Indirect Taxes	5.9	5.2	-3.9	..	..	..	..	..	..	..	..
Agriculture	7.7	4.3	2.3	2.7	2.6	2.9	2.2	-2.0	-5.9	-9.3	55.2
Industry	44.8	46.7	62.5	39.7	37.4	41.2	4.2	6.4	-6.6	-3.8	-1.9
(of which Manufacturing)	..	20.1	8.9	8.2	8.2	8.6	4.5	2.4	-5.2	-8.1	-4.1
Services	41.6	43.8	39.2	57.6	59.9	55.9	3.2	9.3	-2.8	-4.7	-6.6
Resource Balance	-4.8	5.8	11.5	1.0	4.5	7.1	..	..	..	..	..
Exports of GNFS	64.6	44.2	50.4	33.7	39.0	44.0	5.3	0.9	3.5	9.6	-8.6
Imports of GNFS	69.3	38.4	39.0	32.6	34.6	36.9	7.8	16.3	1.5	4.3	-11.5
Total Expenditures	104.8	94.2	88.5	99.0	95.5	92.9	3.6	14.8	-8.1	-8.7	-9.3
Total Consumption	78.9	68.3	57.9	79.8	78.3	73.8	3.3	14.0	-5.2	-7.7	-10.2
Private Consumption	66.7	54.0	45.9	57.9	58.0	55.3	1.5	15.2	-6.6	-7.8	-14.6
General Government	12.1	14.3	12.1	21.9	20.3	18.6	8.8	10.0	-3.4	-7.5	-1.2
Gross Domestic Investment	25.9	26.0	30.6	19.1	17.2	19.1	6.2	16.6	-17.1	-14.1	-4.0
Fixed Investment	25.8	22.6	28.1	19.1	17.2	19.1	6.2	16.6	-17.1	-14.1	-4.0
Changes in Stocks	0.1	3.4	2.5	..	..	..	..	..	..	..	..
Gross Domestic Saving	21.1	31.7	42.1	20.2	21.7	26.2	4.1	13.2	-2.6	27.4	10.7
Net Factor Income	-7.6	-7.0	-5.1	-6.1	-6.2	-10.3	..	..	..	..	..
Net Current Transfers	0.0	-0.2	-0.7	-0.4	-0.5	-0.6	..	..	..	..	..
Gross National Saving	13.6	24.6	36.3	13.7	15.0	15.1	4.5	16.0	4.3	42.7	0.0

In thousands of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	..	..	..	..	..	3.9	6.0	-4.4	-4.3	-3.7
Capacity to Import	211292	395982	1262034	5849600	6678143	6243893	6.0	13.2	4.0	14.2	-6.5
Terms of Trade Adjustment	41289	120570	964440	0	264835	382370	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	3.2	13.5	-4.8	-1.9	-0.6
Gross National Product	..	..	..	..	..	..	4.1	6.4	-3.7	..	..
Gross National Income	..	..	..	..	..	..	3.4	14.5	..	..	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	46.8	83.8	90.3	100.0	107.8	120.1	5.1	13.7	11.0	7.8	11.4
Wholesale Prices (IFS 63)	54.7	90.2	96.0	100.0	..	..	..	..	8.6	..	..
Implicit GDP Deflator	..	..	..	..	..	..	..	..	..	..	..
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	1.2	1.6	1.6
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	51.4	46.1	1.2
Gross Domestic Saving	54.8	49.1	8.5
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	20.1	16.0	10.2	..
Industry	34.8	36.5	38.5	..
Services	45.0	47.6	51.3	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FUEL	..	..	..	..	..	..	..	1,001	552	520	414	497
X.FUEL.X	..	..	..	..	..	..	..	674	404	466	382	431
X.MAN.X	..	..	..	..	..	..	..	144	93	41	70	82
X.MAN.CHEM	..	..	..	..	..	..	..	163	125	113	150	171
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	173	184	260	439	351
Total Exports FOB	..	..	..	..	..	..	..	2,155	1,358	1,400	1,455	1,532
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	246	237	156	147	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	211	180	122	137	..
Other Intermed. Goods	..	..	..	..	..	..	..	725	597	551	509	..
Capital goods	..	..	..	..	..	..	..	412	433	331	380	..
Total Imports CIF	..	..	..	..	..	..	..	1,594	1,446	1,161	1,174	1,192

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	3,139	2,399	1,637	1,618	1,727	1,859
Merchandise (FOB)	2,542	2,111	1,359	1,397	1,453	1,532
Non-Factor Services	597	288	278	221	273	328
Imports of Goods & NFS	2,429	2,068	1,811	1,542	1,517	1,572
Merchandise (FOB)	1,789	1,355	1,206	1,058	1,064	1,192
Non-Factor Services	640	713	605	485	453	380
Resource Balance	710	331	-173	76	209	288
Net Factor Income	-311	-362	-217	-281	-341	-417
(interest per DRS)	50	96	118	122	88	176
Net Current Transfers	-42	-55	-31	-20	-23	-23
(workers' remittances)	1	0	0	0	2	..
Curr. A/C Bal. before Off. Transf.	357	-86	-421	-226	-154	-153
Net Official Transfers	-22	-4	-19	-17	-7	0
Curr. A/C Bal. after Off. Transf.	335	-90	-441	-242	-161	-153
Long-Term Capital Inflow	323	32	-74	-60	-38	156
Direct Investment	185	-7	-22	31	63	36
Net LT Loans (DRS data)	187	143	156	-129	123	148
Other LT Inflow (Net)	-49	-104	-209	38	-223	-27
Total Other Items (net)	-9	-243	-207	46	56	6
Net Short Term Capital	-96	-12	-124	137	124	62
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	87	-231	-83	-90	-68	-56
Changes in Net Reserves	-648	301	722	256	143	-9
Net Credit from the IMF	..	..	..	..	114	110
Other Reserves Changes	-648	301	722	256	28	-119
As Share of GDP:						
Resource Balance	11.4	4.6	-3.6	1.6	4.7	7.1
Interest Payments	0.8	1.3	2.4	2.5	2.0	4.3
Current Account Balance	5.7	-1.2	-8.7	-4.7	-3.4	-3.8
Memorandum Items:						
Reserves excl. Gold (mil. US$)	2,781	1,128	474	188	127	247
Reserves incl. Gold (mil. US$)	2,813	1,146	495	214	149	268
Official X-Rate (LCUs/US$)	2.40	2.45	3.60	3.60	3.84	4.25
Index Real Eff. X-R Base 1980	100.00	167.38	115.78	107.34	100.67	99.28
GDP (millions of current US$)	6,236	7,271	4,826	4,827	4,482	4,050

Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-85	1986	1987	1988	1989
A. Total Revenue	43.3	35.8	30.3	30.2	27.9		9.5	-17.4	-1.3	-7.5	
B. Total Expenditure	36.0	42.7	37.7	35.9	34.4		12.2	-13.8	-5.5	-4.2	
C. Overall Balance	7.3	-6.9	-7.4	-5.8	-6.5		..	..	..	..	
1. External Borrowing	1.1	2.7	-1.3	0.3	3.0		..	..	..	..	
2. Domestic Borrowing	-8.5	4.1	8.7	5.5	3.5		..	..	..	..	

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	187	143	156	-129	123	148	713	1,299	1,585	1,639	1,718	1,856
Official Creditors	114	-9	10	-31	-13	48	263	367	393	384	359	620
Multilateral	5	-3	-3	-6	0	5	71	57	66	72	67	71
of which IBRD	-1	-4	-6	-8	-6	-6	57	38	40	41	32	26
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	109	-5	13	-25	-13	43	192	310	327	312	292	549
Private Creditors	73	152	146	-98	136	100	450	932	1,192	1,254	1,359	1,236
Suppliers	2	1	62	-18	-8	3	3	61	129	119	118	71
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	187	143	156	-129	123	148	713	1,299	1,585	1,639	1,718	1,856
IMF Credit	0	0	0	0	114	91	0	0	0	0	115	205
Net Short-Term Capital	-96	-12	-124	137	124	62	116	149	273	166	163	127
Total incl. IMF & Net ST	91	131	33	7	361	300	829	1,448	1,858	1,805	1,995	2,188

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	7.93	2.95	2.55	2.53	1.84	1.38
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	7.93	2.95	2.55	2.53	1.84	1.38
Share of LT Debt Service						
1. IBRD as % of Total	4.60	2.75	2.88	2.69	5.94	3.25
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	4.60	2.75	2.88	2.69	5.94	3.25
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	21.13	50.06	91.38	100.21	98.22	98.67
2. IMF Credit/Exports	0.00	0.00	0.00	0.00	6.55	10.88
3. Short-Term Debt/Exports	3.44	5.74	15.74	10.16	9.32	6.75
4. LT+IMF+ST DOD/Exports	24.57	55.80	107.13	110.37	114.09	116.30
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	11.43	17.87	32.84	33.95	38.32	45.82
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	2.55	5.05
3. Short-Term Debt/GDP	1.86	2.05	5.66	3.44	3.64	3.14
4. LT+IMF+ST DOD/GDP	13.29	19.92	38.50	37.39	44.51	54.01
Debt Service /Exports						
1. Public & Guaranteed LT	6.71	9.68	17.83	23.67	8.47	12.25
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	6.71	9.68	17.83	23.67	8.47	12.25
4. IMF Repurchases+Serv. Chgs.						0.71
5. Interest only on ST Debt	0.12	0.50	1.09	1.21	0.86	0.58
6. Total (LT+IMF+ST Int.)	6.83	10.57	18.92	31.42	11.56	13.55

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Tunisia

Tunisia is a country of medium size that, despite only modest natural endowments, has made considerable economic and social progress without incurring excessive debt. Much of the country is arid or semi-arid; only 3 percent of arable land is irrigated and the output of rainfed agriculture fluctuates substantially according to rainfall. It has petroleum and, for a brief period, from the mid-1970s to the mid-1980s, earnings from oil exports were substantial. But reserves are being depleted: extraction began to decline in 1980 and the country is on the verge of becoming a net oil importer. There is a considerable phosphate mining and processing industry, but it is constrained by the low grade of ores. The natural endowment that has in recent years led to the most development and which holds the most promise for the future is Tunisia's beaches. Together with some historic sites and unusual scenery (and, of course, the climate), they have made tourism a major industry and source of export earnings.

Tunisia's progress has been all the more substantial for being broad. The GNP per capita in 1988 of US$1,230 was exceeded in the whole of Africa only by some OPEC economies, Mauritius, and South Africa. Since the early 1960s, life expectancy has risen from 48 to 65 years and infant mortality has fallen from 160 per thousand to 59, thus reaching levels surpassed in Africa only by Mauritius. Over this period adult literacy rose from 15 percent to 62 percent. Between 1965 and 1985 birth rates declined 27 percent and mortality declined 45 percent, with the net effect that population growth is still high, around 2.5 percent a year. The labor force has been growing even faster because of the increasing entry of women and the high proportion of young in the population. Despite the pace of economic growth, unemployment has gradually crept up to an estimated rate of 15 percent, and constitutes one of the greatest concerns of the authorities.

The successes could not have been achieved without a long-term emphasis on developing human resources and maintaining macroeconomic stability. Nonetheless, the growth in earnings from oil exports (to 12.1 percent of GDP in 1979) encouraged a departure in the second half of the 1970s from Tunisia's normal prudence in macroeconomic policy, and nearly brought on a balance of crisis after these earnings declined in the early 1980s. Fixed investment rose from around 20 percent of GDP in 1970-74 to around 30 percent after 1975. Consumption growth did not slow down and averaged 8.5 percent a year over the decade. Nor did GDP growth accelerate, though its annual average for the decade of 7.4 percent was high. Even though the dinar depreciated steadily in real effective terms by a total of 17 percent from 1970 to 1980 and non-oil exports grew at an annual average of over 10 percent, current account deficits increased. From an average of less than 3 percent of GDP before 1975 they rose to around 10 percent in 1976-78 when oil prices weakened. Oil prices rose again in 1979, but it was known that oil extraction would decline after 1980, because of the depletion of reserves, and it was unlikely that prices would remain so high.

Recent Economic Developments

From 1980 to 1984 oil exports, net of imports, declined from US$548 million to US$425 million, a loss equivalent to 1.5 percent of GDP. Tunisia delayed adjusting expenditures and its macroeconomic balances deteriorated ominously. The sixth Plan (1982-86) proposed cutting expenditure and increasing the emphasis on exports. But, in fact, investment remained at around 31 percent of GDP from 1980 to 1984, while consumption increased at an average annual rate of 7.0 percent. Despite a modest real effective depreciation of the dinar, this growth of domestic demand caused exports to stagnate and imports to accelerate. By 1984 the deficit in the current account reached 10.9 percent of GDP and the resource gap 11.7 percent. Government revenues grew rapidly, so as to increase their share in GDP from 29 percent in 1980 to 34 percent in 1984, with higher taxes offsetting a loss of oil revenue. But, as total government expenditures increased even faster, so that their share in GDP increased from 32.2 percent to 40.7 percent, the overall government deficit reached

6.7 percent of GDP. These policies kept GDP growth up: it averaged 4.5 percent for the period, in spite of a drought in 1982 that slightly reduced GDP. But they also raised the inflation rate to an annual average of 10.0 percent.

By the end of 1984 a balance of payments crisis was imminent and only strong measures averted it. Tunisia's reserves were down to seven weeks' imports and the volume of oil exports had fallen 30 percent since 1980. External debt had grown to 51 percent of GDP and, because maturities had shortened and world interest rates were higher, debt service had reached 22 percent of exports and was rising. Unless Tunisia's balance of payments improved quickly, external financing would become difficult to obtain. An immediate balance of payments crisis was prevented by tightening import restrictions. But the government, recognizing that there were underlying economic problems that needed to be addressed, restrained expenditures and began a process of policy revision that has broadened into a wide-ranging process of structural adjustment.

The combined effect of import restrictions and expenditure restraint was a fall in the resource gap to 7.6 percent and in the current account deficit to 8.3 percent of GDP in 1986. The fall in expenditures was due primarily to a drop in public sector investment. Private investment fell too, but it had begun a long decline two years earlier, when competition with the public sector for resources intensified. Wage increases had slowed to below the inflation rate, after several years of excessively fast growth. Various measures set the stage for rapid sustained growth of exports, though their benefits came in the following years. They included devaluations of the Tunisian dinar in 1985 and 1986 to give a real effective devaluation of 17 percent below the rate at the end of 1984, removal of export licensing (except for subsidized goods), partial elimination of export taxes, and steps to facilitate exports.

At the same time as it sought to stabilize the balance of payments and public finances, the government began to formulate a program of economic reforms to address the longer term weaknesses of the economy. Economic activity had always been tightly controlled and highly protected. Through close controls over investment, credit, prices, imports, entry into activities, and wages the government had limited competition, ensuring that investments were likely to be profitable, while protecting wage earners from monopolistic pricing and stabilizing the prices of the main items of consumption. But limiting competition, especially through widespread import restrictions, had resulted in many investments that depended on high levels of protection, raising doubts about their contribution to national income. This was particularly the case in public enterprises, where investment had been high as a result of the accrual to the state of the bulk of income from oil. Stabilizing certain consumer goods prices led both to growing price subsidies from the budget and a tendency to keep the producer prices of certain agricultural products and fertilizers low.

These policies had resulted in a deterioration in the efficiency of investment, whereas resource availability was tightening because of the decline in earnings from oil and the accumulation of external debt. The 5-year non-oil ICOR (incremental capital output ratio), which had varied around 4 in the early 1970s, had risen to over 6 in the early 1980s. The fall in net oil exports between 1980 and 1986 amounted to 4.2 percent of the GDP of 1986 and the increase in external debt service to 3.7 percent. The budget was also affected: government revenues from oil fell from 6.0 percent of GDP to 5.6 percent and would have fallen more but for the devaluations of the dinar. The budgetary cost of servicing government debt rose at the same time from 3.7 percent of GDP to 8.4 percent.

The policy reforms begun in 1986, which have since been greatly amplified, have been designed to improve economic efficiency by making the economy more outward oriented and expanding the role of the private sector. This implies allowing more competition, both within the economy and from abroad, and consequently the removal of many administrative controls that have restricted competition. The reforms include the decontrol of domestic prices and the removal in stages of import restrictions. As a necessary accompaniment, the direct and indirect tax systems have been undergoing reform as well. Administrative controls had been especially tight in the financial sector; but the pace of reform has been such that only a few controls remain that need to be removed, and competition is now coming from the development and diversification of financial and capital markets. The government is divesting itself of public enterprises that are not natural monopolies, though this will be a long term effort, and is turning to the use of performance contracts and more active boards of directors to improve the management of enterprises that are still public.

Since 1986 there has been a reversal in Tunisia's balance of payments situation with good indications that it will be sustained. Since part of the reversal has been due to a lag in the growth of imports, following a substantial fall in investment and persistent restraint on consumption, the sustainability will depend on the extent to which improvements in efficiency of investment give scope for faster long term growth of GDP and consumption. Much of the reversal in the balance of payments has been due to rapid growth of exports and, although Tunisia is still at an early stage in the structural adjustment of its economy, this indicates that a good part of the growth of GDP has been efficient.

Acceleration of export growth was an effect of measures taken in 1985 and 1986 and likely to be lasting, whereas the growth of imports has been partly due to transient events and may slow down. Total exports in 1989 were 34 percent above their volume in 1986. Manufactures constituted 47 percent of total exports in 1989 and were 56 percent higher than in 1986. Tourism accounts for 21 percent of exports and increased 90 percent over the period, though its peak was reached in 1988, when there was an unexpected large number of visitors from neighboring countries. Total imports were 26 percent greater in volume in 1989 than in 1986, an increase close to that of exports although they fell slightly in 1987. This lag, the effect of a fall in imports of capital goods and restraint on consumption, permitted an immediate improvement in the resource balance. The growth of imports in 1988 and 1989 was partly due to a modest recovery in investment. Some import of consumption goods in 1989 was for tourism (visitors from neighboring countries) and for foodstuffs due to drought factors that will be absent in 1990.

The fall that resulted in the resource gap relative to GDP and the effects of the government's actions in increasing remittances from Tunisians abroad permitted a modest improvement in Tunisia's debt indicators. From 7.6 percent of GDP in 1986 the resource gap fell to 1.0 percent in 1987 and became a small surplus in 1988 before becoming a deficit again of 4.5 percent of GDP in 1989. Net current transfers, essentially remittances, grew in current dollar terms and rose from 4.1 percent of GDP in 1986 to 5.4 percent in 1988, falling then slightly to 5.0 percent of GDP in 1989. Consequently the current account balance, which was less favorable than the resource balance by 0.7 percent of GDP in 1986, ended by being more favorable by 0.7 percent of GDP in 1989. Tunisia was able to reduce debt to private sources while drawing on loans from official sources, whose maturities were longer and interest rates lower. Hence, although the ratio of total debt to GDP in 1989 reached the same peak of 70.3 percent as in 1987, after a dip in 1988, the improvement in the debt structure and the growth of exports resulted in a decline of the debt service ratio from its peak of 28.1 percent in 1987 to 25.0 percent in 1989.

Exports became the driving force behind GDP growth, enough to mitigate the effects of extreme fluctuations in rainfall. GDP in 1989 was 10.6 percent higher than in 1986, though growth was uneven because of the effects of rainfall variations on agriculture. Excellent rainfall in 1987 allowed agricultural production to recover sharply from the effects of drought in 1986, but Tunisia's severest drought in fifty years caused an even sharper fall in production in 1988 and another drought prevented more than a small recovery in 1989. Manufacturing grew at an average of 5.1 percent a year and services at 5.7 percent a year, both largely because of exports, including tourism, since domestic consumption grew slowly. In 1987 and in 1988 consumption grew at 1.1-1.2 percent and only in 1989 did its growth of 2.8 percent exceed that of population, the first time since 1985. Fixed investment, continued to fall through 1988, though preliminary data indicate that both private and public enterprise investment grew modestly in 1989.

The government budget deficits were brought to lower shares of GDP then had been reached since 1981, though further progress was hindered by the difficulty of compressing transfers for public enterprises and consumer subsidies on the one hand, and by declines in revenue relative to GDP on the other. The relative decline in revenue was partly due to reductions of import duties and partly to reductions of indirect taxes that had been raised in the previous years. Consequently, it was a return from the peak level of 34 percent of GDP in 1984 to the level of around 31 percent of 1981-83, though still above the levels of the 1970s. In keeping with its policy of limiting the role of the state, the government is reluctant to raise tax rates, though it expects to increase yields through better collection. Recurrent expenditures were restrained by limiting government salaries and recruitment, while capital expenditures were reduced substantially relative to GDP, from 12.1 percent in 1986 to 7.6 in 1989. Transfers to public enterprises did not continue their initial decline, though gradual progress is expected as the result of the government's program for reforming public enterprises. Consumer subsidies increased substantially because of the coincidence of the need to import large quantities of cereals on account of droughts with the rise in world cereal prices.

1990 is expected to benefit from an end to the drought, though this has been accompanied by floods; from a promising export performance; and from a recovery of private investment. Another drought would have caused serious water shortages by emptying the reservoirs, but the danger was escaped in April when rains fell in the northern areas. Earlier, in January, heavy rain further south had caused floods that damaged housing and infrastructure estimated to cost TD 200 million. Exports have so far been running ahead of forecasts and foreign exchange reserves in March stood at 2.7 month's imports, rather above the normal level for that time of the year. Although early data tend to be inaccurate, there are increasingly convincing signs that private investment did increase in 1989 and is continuing to grow.

Implementation of Reforms

Implementation of the government's reform program has in certain respects gone further than had been anticipated, but has lagged in others. The need for prior authorization of investment and prior central bank authorization for most loans have been dropped. But entry into wholesale distribution is still tightly controlled. Anti-trust legislation is under preparation as a necessary complement to measures to allow free entry into economic activities.

Since controls over domestic prices protected consumers from monopolistic practices by suppliers while restrictions on imports protected enterprises, and therefore jobs, from external competition, the decontrol of domestic prices and the removal of import restrictions need to be combined in such a manner as both to allow imports to create competition and to give enterprises the opportunity to adjust to the new competition. Decontrol of producer prices began in 1988 as the first of several stages in the government's program to remove controls on all but a handful of these prices by 1991. Decontrol of wholesale margins is similarly scheduled to occur in stages to cover at least 50 percent of prices by 1992. Import tariffs have been reduced to a maximum of 41 percent and their range has been narrowed. The government's program is to reduce the maximum tariff further to 35 percent over the medium term.

However, most domestic production is protected from external competition by import restrictions, so that the government's program, to remove these restrictions on all but a handful of subsidized consumer goods and luxuries before the end of 1992, faces resistance. To give enterprises that can do so viably the opportunity to restructure to face competition from imports, and thus reduce opposition to trade liberalization, the import restrictions can be replaced by temporary, supplementary tariffs, exactly as the government envisages for infant industries. The government is also establishing anti-dumping and safeguard procedures to protect domestic producers against unfair foreign competition, though it is important that these procedures not be used as a disguised form of protection.

Taxation has undergone major reform to reduce distortions and to simplify taxes, though some distortions remain and will need to be removed over the medium term. A valued added tax was introduced for production other than agriculture in July 1988 and was extended to all wholesale, except in basic foodstuffs, in October 1989. Its extension to large-scale retail is under study. But there are, in addition, consumption taxes that were kept to avoid an immediate shortfall in revenue and which are to be gradually narrowed to a few luxuries. A new direct tax law took effect from January 1, 1990. Its maximum rates are lower than in the previous system, but its incidence would be broader. The highest marginal rate of 35 percent on personal incomes is much below the highest rate of the old tax, but fringe benefits that were exempt before are now being taxed. The corporate tax has been reduced to two rates, a normal rate of 35 percent, and a low rate of 10 percent for agriculture, small scale enterprises, and certain special ventures, such as retail cooperatives. This new law simplifies direct taxation, which will make it easier to tax professional incomes and profits that escape taxation. But some distortions will remain because there are several schemes of special investment incentives in various sectors that provide a diversity of tax concessions.

Reform in the financial sector has gone far to transform what was a limited and closely regulated sector to one in which competition and diversification are becoming increasingly important. The government now faces the delicate task of fostering competition between banks while enabling the banks to provision adequately for the numerous low quality loans they accumulated before the reforms. The main reforms have been to drop the requirements for central bank authorization, which applied to the great bulk of lending; to free interest rates, with the major exception of a cap on bank lending spreads; and the development of a money market. A new arrangement has resulted in the financial sector with much greater scope for competition than in the past, but, so far the banks have tended to be cautious and even to enter into cartel arrangements to keep deposit rates down.

Competition in banking must above all consist of innovation and a search for a wider range of customers. The money market, itself, implies competition through innovation, since it allows trade in certificate of deposit and commercial paper, which did not exist before 1988 in Tunisia and which compete directly with bank deposits. As it is extended and secondary markets for longer term securities are revived and expanded, the banks as a whole will face more competition. They will need to diversify their services, including becoming active in the new financial markets. They will also need to be bolder in their search for borrowers. Here they are inhibited by the cap on their lending spreads over the money market rate, which confines them just to safe, low cost borrowers and needs to be removed, or at least relaxed. Banks also appear to be cautious in their lending, because they already have substantial low quality loans and are risk averse. They are now provisioning for these loans much faster than before, but the tax treatment of provisions is ungenerous, despite recent improvements, and should be revised to encourage provisioning more.

The Social Costs of Adjustment

The government faces the delicate task of reducing consumer subsidies without hurting the poor or provoking unrest. The subsidies have become a heavy burden on the budget and are inefficient, since they benefit poor and rich in proportion to their consumption of the subsidized goods. Measures to reduce them in recent years have consisted of price increases and the removal of some goods from the system in a manner that concentrates the subsidies on the items most consumed by the poor. Most recently, in May 1990, prices of fertilizers and animal feed, which are indirect food subsidies, were increased sharply. But further measures are needed and the government is preparing a program for targeting the poor through a variety of means.

Unemployment is a long-term problem: because the labor force is growing faster than the population, the unemployment rate is not expected to diminish significantly for several years. The problem would, however, be worse in the absence of the adjustment program which reduces the cost of labor relative to investment. The government is attempting to reinforce the effects of these relative prices through a number of schemes to promote labor intensive investment and self-employment. It is also experimenting with schemes to encourage firms to provide apprenticeships and attract private investment in training. But, the underlying problem is high population growth, and is being addressed directly through an active family-planning program, and indirectly by changing incentives. The President has endorsed the concept of the family with three children, and since January 1, 1989, the social security fund (CNSS) limits family allowances to three children, and not four as in the past.

Medium-Term Prospects

Analysis of Tunisia's medium-term prospects indicates that the country would attain its objective of adjusting to the loss of oil export earnings and the rise in external debt service over the 1980s by an increase in efficiency in terms of a gradual decline of the 5-year ICOR from its level of over 6 in the early 1980s to around 4 in the mid-1990s. A gradual increase in the GDP growth rate would be achieved with a level of total investment moderately higher than the rate of 19 percent of GDP in 1988. Part of the decline in the ICOR would be due to an increase in the share in GDP of private sector investment, while that of public sector investment would fall. And part would also be due to changes in relative prices, notably the rise in real interest rates that has occurred as part of the banking sector reforms and the increase in the cost of capital relative to wages due to the wage restraint and the real depreciation of the Tunisian dinar since 1985.

The lower level of investment needed to achieve the above growth rates, as compared to the levels in the late 1970s and early 1980s, would, given that saving in Tunisia is high and unlikely to increase much, result in current account deficits small enough for debt indicators to improve steadily. Tunisia's non-interest current account would be close to balancing after 1991. Since a balance on the non-interest current account is equivalent to a zero net resource transfer, Tunisia's external debt will grow in nominal terms over the medium term, though declining relative to GDP and exports. Much of the growth will be from a resumption of borrowing on financial markets in the coming years on the basis of Tunisia's good credit standing.

Tunisia is better protected from exogenous uncertainties, other than the weather, than most developing countries, and its future economic development will therefore be determined directly by the policies pursued. It is not expected to require debt relief, so it is free of the associated uncertainties over resource flows; 73 percent of its debt is at fixed interest rates, so it is not sensitive to interest rate changes; and oil is no longer a major export, so there is less risk of terms of trade effects. One major uncertainty is rainfall, which determines a large part of agricultural production. Analysis of the effects of a single drought comparable to that of 1986 indicates that GDP growth would be reduced for a year and that the deficits in the current account of the balance of payments and on the budget would increase briefly. However, the effects of the resulting increased debt would be insignificant.

The impending economic unification of Europe in 1992 and the changes in Eastern Europe are new sources of uncertainty, whose effects on investment, especially in export activities, cannot yet be predicted. The uncertainty is, however, at the moment the same for all countries that rely on the European market and may result in gains as much as in losses to these countries. It will be the economies that can most quickly seize opportunities and adapt to circumstances that will make the most of the gains. This apart, however, and if droughts are not frequent or as severe as in 1988, with appropriate economic policies Tunisia can look forward to acceptable increases in per capita consumption and employment over the long term.

TUNISIA

Mid-1988 Population (mils.)	7.817
1988 Per Capita GNP in US$:	1,230

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*65-73*	*73-80*	*80-88*	*1988*	*1989*
Gross Domestic Product, c.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.7	6.4	3.4	1.3	3.0
Net Indirect Taxes	12.4	13.6	13.5	12.7	12.8	11.5	7.3	8.3	3.2	5.9	3.0
Agriculture	20.8	19.7	14.1	15.4	11.8	11.9	5.9	1.7	2.4	-23.9	4.1
Industry	19.2	21.3	31.1	27.9	28.1	28.1	7.5	8.6	2.4	2.3	3.3
(of which Manufacturing)	8.1	9.3	11.8	13.2	14.1	14.1	10.0	10.0	6.0	6.9	4.4
Services	47.6	45.3	41.3	43.9	47.3	48.5	6.5	6.3	4.4	8.2	2.5
Resource Balance	-13.2	-2.5	-5.4	-1.0	0.5	-4.5	..	..	..	..	..
Exports of GNFS	19.0	26.1	40.2	35.1	42.5	41.9	12.0	9.9	4.4	24.5	-1.3
Imports of GNFS	32.3	28.5	45.6	36.2	42.0	46.4	7.1	11.9	-0.8	16.2	11.1
Total Expenditures	113.2	102.5	105.4	101.0	99.5	104.5	5.5	7.4	1.3	-1.4	8.3
Total Consumption	85.3	81.2	76.0	80.7	80.7	80.6	7.1	7.8	3.8	3.2	-0.9
Private Consumption	70.2	66.0	61.5	64.3	64.6	64.5	7.6	7.8	3.7	3.9	-0.2
General Government	15.2	15.1	14.5	16.4	16.1	16.1	5.2	7.7	3.9	0.3	3.2
Gross Domestic Investment	27.9	21.3	29.4	20.3	18.8	23.9	2.9	6.7	-6.1	-19.7	55.0
Fixed Investment	27.8	20.5	28.3	20.4	19.5	20.6	4.9	9.7	-4.2	-5.1	8.5
Changes in Stock	0.1	0.8	1.1	-0.1	-0.7	3.3	-1.3	-7.6	..	..	..
Gross Domestic Savings	14.7	18.8	24.0	19.3	19.3	19.4	6.7	4.1	-3.6	-12.2	23.5
Net Factor Income	-2.5	-4.4	-3.4	-4.9	-5.0	-4.6	..	..	..	..	..
Net Current Transfers	0.4	3.4	4.0	5.0	5.6	5.3	35.2	8.6	4.2	9.8	1.2
Gross National Savings	12.6	17.8	24.6	19.4	19.8	20.0	7.5	4.6	-4.0	-9.9	23.5

In millions of Tunisian Dinars (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*65-73*	*73-80*	*80-88*	*1988*	*1989*
Gross Domestic Product	2,488	3,964	6,218	7,958	8,064	8,306	6.7	6.4	3.4	1.3	3.0
Capacity to Import	501	1,261	2,684	2,796	3,383	3,356	13.2	10.2	1.1	21.0	-0.8
Terms of Trade Adjustment	-27	73	429	0	-99	-83	..	..	..	..	..
Gross Domestic Income	2,450	4,028	6,654	7,958	7,975	8,233	7.0	6.7	2.1	0.2	3.2
Gross National Product	2,426	3,784	5,995	7,572	7,672	7,920	6.5	6.5	3.2	1.3	3.2
Gross National Income	2,399	3,857	6,424	7,572	7,573	7,837	4.5	4.0	-0.7	0.0	3.5

			(1987 = 100)						*Inflation Rates (% p.a.)*		
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*73-80*	*73-80*	*80-88*	*1988*	*1989*
Consumer Prices (IFS 64)	55.8	88.2	93.3	100.0	106.3	114.2	3.3	6.8	8.4	6.3	7.4
Wholesale Prices (IFS 63)	57.2	92.2	97.4	100.0	106.3	0.0	3.7	6.6	7.7	6.3	0.0
Implicit GDP Deflator	56.9	90.4	93.2	100.0	106.7	116.9	4.0	8.7	7.7	6.7	9.5
Implicit Expenditure Deflator	53.3	87.0	92.9	100.0	108.1	118.2	3.8	8.5	9.1	8.1	9.4

D. Other Indicators

Growth Rates (% p.a.)	*65-73*	*73-80*	*80-88*
Population	2.2	2.6	2.6
Labor Force	..	..	2.9
Gross National Income p.c.	4.5	4.0	-0.7
Private Consumption p.c.	7.6	7.8	3.7
Import Elasticity:			
Imports (G+NFS) / GDP mp	1.1	1.8	-0.3
Marginal Savings Rates:			
Gross National Savings	37.5	23.1	-25.5
Gross Domestic Savings	32.7	19.9	-19.6
ICOR (period averages)	4.1	5.1	10.2

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*
Agriculture	..	..	35.0	24.9	24.4	24.3
Industry	..	..	32.0	34.5	34.4	34.4
Services	..	..	33.0	40.6	41.2	41.3
Total	..	..	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index						Value at Current Prices (millions US$)					
	1980	1985	1986	1987	1988	1989	1980	1985	1986	1987	1988	1989
Agriculture	63.4	87.9	94.3	100.0	107.2	107.8	88	97	132	158	182	161
Fuel	137.0	96.4	107.6	100.0	97.0	107.5	1,347	723	428	505	385	516
Phosphate	128.7	108.9	99.6	100.0	103.9	140.5	55	32	32	32	28	26
Manufactures	53.0	72.2	81.6	100.0	115.9	127.7	905	877	1,175	1,442	1,801	2,031
Total Exports, FOB	83.4	81.8	91.4	100.0	108.8	120.0	2,395	1,729	1,768	2,137	2,396	2,734
F. Merchandise Imports												
Food	77.4	87.7	108.4	100.0	150.1	134.8	388	333	361	312	554	595
POL and Other Energy	136.8	76.1	81.6	100.0	88.7	113.3	799	370	252	318	243	358
Other Consumer Goods	104.4	111.3	107.7	100.0	116.5	134.1	2,435	2,038	2,288	2,397	2,894	3,250
Other Intermed. Goods	160.0	165.0	139.5	100.0	113.5	140.1	742	603	636	520	618	748
Other Int. Goods	89.3	92.8	100.1	100.0	117.1	129.8	1,099	892	1,030	1,100	1,344	1,454
Total Merch. Imports, CIF	106.0	101.8	103.3	100.0	116.7	130.6	3,622	2,741	2,901	3,028	3,692	4,203

G. Terms of Trade (1987=100)	1980	1985	1986	1987	1988	1989
Export Price Index	134.4	98.9	90.5	100.0	103.0	106.6
Import Price Index	112.9	88.9	92.7	100.0	104.5	106.3
Terms of Trade	119.1	111.3	97.6	100.0	98.6	100.3

H. Balance of Payments	US$ millions (at current prices)					
	1980	1985	1986	1987	1988	1989
Exports of Goods & Services	3,518	2,700	2,722	3,374	4,266	4,284
Merchandise (FOB)	2,395	1,729	1,768	2,137	2,396	2,733
Non-factor services	1,122	971	954	1,237	1,870	1,551
Imports of Goods & Services	3,986	3,207	3,393	3,473	4,218	4,742
Merchandise (fob)	3,453	2,596	2,751	2,869	3,502	3,986
Non-factor services	533	612	642	605	716	756
Resource Balance	-469	-507	-671	-99	48	-458
Net Factor Income	-293	-352	-422	-466	-500	-475
(interest per DRS) 1/	255	269	325	367	415	424
Net Current Transfers	348	270	359	484	558	544
(workers' remittances)	303	271	362	486	544	495
Curr. A/C Bal. before Off. Transf.	-414	-589	-734	-82	106	-390
Net Official Transfers	41	37	41	35	47	63
Curr. A/C Bal. after Off. Transf.	-373	-552	-693	-47	153	-327
Long Term Capital Inflow	604	454	435	86	326	408
Direct Investment	236	139	155	92	105	126
Net LT Loans (DRS data)	368	315	280	-6	221	281
Other LT inflows (Net)	0	0	0	0	0	0
Total Other Items (Net)	-166	-15	66	77	-100	75
Net Short-term Capital	-54	13	45	0	48	18
Capital Flows N.E.I.	-113	-27	21	77	-148	57
Errors and Omissions	0	0	0	0	0	0
Changes in Net Reserves	-65	113	192	-116	-378	-155
Net Credit from IMF	-31	0	176	53	20	0
Other Reserve Changes	-34	113	17	-169	-398	-155
As shares of GDP:						
Resource Balance	-5.4	-6.1	-7.6	-1.0	0.5	-4.5
Interest Payments 1/	2.9	3.2	3.7	3.8	4.1	4.1
Current Account Balance 2/	-4.3	-6.7	-7.9	-0.5	1.5	-3.2
Memorandum items:						
Internat'l Reserves	590	233	305	526	899	962
Reserves incl. Gold	700	294	378	616	976	1,037
Official X-Rate (LCU/US$)	0.41	0.83	0.79	0.83	0.86	0.95
Index Real eff.X-R Base 80	100.00	96.74	82.90	71.23	69.80	68.48
GDP (millions,current US$)	8,742	8,280	8,821	9,603	10,032	10,224

Notes:

1/ Total Interest Payments icluding MLT, IMF Short-Term.
2/ Current Account deficit after the Official grants as % of GDP.

I.Central Government Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1985	1986	1987	1988	1989
Current Receipts	28.7	31.3	31.3	28.6	29.6	24.8	7.7	1.3	3.8	11.9	-5.4
Current Expenditures	19.9	24.7	25.3	23.7	25.3	22.4	5.8	4.0	6.2	15.4	0.2
Current Budget Balance	8.8	6.6	5.9	4.9	4.3	2.3	..	..	..	..	..
Capital Expenditures	12.4	12.2	12.1	9.1	9.4	7.6	-9.5	0.9	-14.7	11.8	-8.8
Changes in Arrears							..	..	..	..	..
Overall Deficit	-3.4	-4.9	-5.5	-3.0	-3.9	-4.2	18.7	-13.1	37.9	-41.4	-19.1
Offical Capital Grants		0.0					..	..	..	..	..
External Borrowing (net)	0.9	2.4	3.0	0.7	1.7	2.0	-27.2	27.3	-74.8	174.4	33.5
Dom. Non-Bank Financing	0.6	0.5	1.0	1.5	1.9	1.1	-57.1	92.1	64.9	40.0	-35.3
Domestic Bank Financing	2.0	2.1	1.5	0.9	0.4	1.1	27.9	-23.6	-34.0	-53.8	223.5

J. External Capital Flows, Debt & Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guaranteed LT	358	290	276	18	212	291	3,225	4,465	5,258	6,023	5,886	6,140
Official Creditors	251	213	188	153	300	476	1,961	3,038	3,619	4,354	4,382	4,832
Multilateral	61	98	150	155	185	281	433	826	1,137	1,540	1,602	1,861
of which IBRD	36	62	94	68	62	156	269	558	789	1,052	1,019	1,154
of which IDA	1	-1	-1	-1	-1	-1	68	65	64	63	62	61
Bilateral	189	115	37	-3	115	194	1,529	2,212	2,482	2,814	2,780	2,971
Private Creditors	107	78	88	-134	-88	-184	1,263	1,426	1,639	1,670	1,504	1,308
Suppliers	2	-23	-38	-39	-44	-41	189	257	244	233	182	135
Financial Markets	105	101	127	-95	-45	-144	1,074	1,169	1,395	1,437	1,322	1,173
Private Non-guaranteed	10	25	4	-24	9	-10	180	246	250	226	235	225
Total Long Term Debt	368	315	280	-6	221	281	3,405	4,711	5,508	6,249	6,121	6,365
IMF Net Credit	-31	0	176	53	20	0	0	0	183	271	277	270
Net Short-Term Capital	-54	13	45	0	48	18	136	182	227	227	275	293
Total incl. IMF & Net ST	283	327	500	47	289	299	3,541	4,893	5,918	6,747	6,672	6,928

Bank and IDA ratios:	1980	1985	1986	1987	1988	1989
Share of Total LT DOD						
1. IBRD as % of Total	7.90	11.84	14.32	16.84	16.65	18.14
2. IDA as % of Total	1.99	1.39	1.17	1.01	1.01	0.96
3. IBRD+IDA as % of Total	9.89	13.23	15.49	17.85	17.66	19.09
Share of Total LT DSR						
1. IBRD as % of Total	7.68	12.19	16.17	16.61	18.15	16.52
2. IDA as % of Total	0.18	0.18	0.17	0.15	0.15	0.15
3. IBRD+IDA as % of Total	7.87	12.37	16.33	16.77	18.30	16.67
DOD to Exports Ratios: 1/						
1. Long-Term Debt/Exports	87.02	156.06	177.02	160.74	125.99	130.94
2. IMF Credit/Exports	0.00	0.00	5.89	6.96	5.70	5.56
3. Short-Term Debt/Exports	3.48	6.03	7.29	5.84	5.65	6.02
4. LT+IMF+ST/Exports	90.50	162.09	190.19	173.53	137.34	142.53
DOD to GDP Ratios:						
1. Long-Term Debt/GDP	38.94	56.89	62.44	65.08	61.01	62.26
2. IMF Credit/GDP	0.00	0.00	2.08	2.82	2.76	2.64
3. Short-Term Debt/GDP	1.56	2.20	2.57	2.36	2.74	2.86
4. LT+IMF+ST/GDP	40.50	59.09	67.09	70.26	66.51	67.76
Debt Service/Exports: 1/						
1. Public & Guaranteed LT	10.93	22.07	25.23	25.22	21.45	22.67
2. Private Non-guaranteed LT	1.49	1.76	2.03	2.20	1.15	1.04
3. Total LT Debt Service	12.42	23.83	27.27	27.42	22.60	23.71
4. IMF Repurchases + S Charge	0.83			0.34	0.34	0.47
5. Interest only on ST Debt	0.67	0.68	0.67	0.47	0.37	0.45
6. Total (LT+IMF+ST Int.)	13.92	24.51	27.94	28.23	23.32	24.63

Notes:

1/ Exports of Goods & Services, including worker remittances.

Turkey

Turkey's population of about 55 million, with a per capita income of $1,360 in 1989, inhabits an area about the size of France and the Federal Republic of Germany combined. Population density is low and about half of the population lives in urban centers. Population growth averaged about 2.4 percent per annum during the 1980s. Unemployment has remained slightly above 10 percent through most of the past decade. There is little absolute poverty but considerable differences in income exist between regions and between rural and urban communities. Recent data indicate a probable increase in income inequality since the 1970s. Educational enrollment at the primary level has become practically universal. Most health indicators, including infant mortality rates, have shown substantial improvement over the past two decades, but here too regional disparities remain significant.

Turkey has a good natural resource base, including hydropower, lignite and other minerals; its agricultural and tourist potential are considerable; and its basic infrastructure is already well developed. The government sees the country's long-term development based on a continued outward orientation of the economy with an enhanced role for the private sector, backed by a more efficient public sector.

During much of the 1960s and 1970s, Turkey was successful in generating rapid growth. Inflation, however, became a double digit phenomenon after 1973 and an inadequate adjustment to the first oil shock contributed to an unsustainable balance of payments position by 1977. Growing current account deficits in the mid-1970s, financed largely through short-term borrowing, more than tripled external debt between 1974 and 1977. Following the virtual cessation of external financing and accumulation of arrears, comprehensive debt rescheduling agreements were negotiated between 1978 and 1980 with both private and official creditors. Meanwhile, the shortage of foreign exchange and imports led to disruptions in industrial production, declines in output, rising unemployment, and an acceleration of inflation to above 100 percent by 1980.

In 1980 the Turkish authorities, embarked on an extended stabilization and reform program. Stabilization was intended to restrain the growth of domestic demand in order to attain a manageable external payments position. The reform program was designed to promote efficiency with increased competitiveness in product and factor markets, mainly through price deregulation, trade liberalization and financial sector reform, and to stimulate growth with a sustainable balance of payments position through a rapid expansion of exports. The program represented a major break with past policies, which had favored import substitution, market intervention and reliance on state enterprises, and resulted in high growth rates of output and exports throughout the early and mid-1980s.

The 1980s also witnessed substantial political change. A military takeover in 1980 succeeded in curbing the increasing violence that had characterized the previous years and was replaced by a civilian government led by Turgut Özal in 1983. Since then economic policy has had to operate in an increasingly complex political context. There were general elections in November 1987; a September 1988 referendum on the timing of local elections that were eventually held in March 1989; and in October 1989, presidential elections held through parliamentary vote. The election of Mr. Özal to the presidency has given Turkey its first civilian president since 1960.

Economic Developments and Policy Issues

Turkey's economic performance between 1980 and 1986 compared very favorably with that of other middle-income developing countries confronted by external financing difficulties. Economic growth averaged about 5 percent per year, inflation was reduced to 25 percent, an outward orientation of policies was reflected in a tripling of the share of exports in GDP, and its international financing situation was substantially improved. After 1986, economic liberalization continued but there has been a dichotomy between domestic and external performance. On the external front, the current account shifted into surplus in 1988-89, aided by growing revenues from tourism and workers remittances and continued export growth in 1987-88. Foreign direct investment has also surged recently and Turkey has increasingly been able to diversify its foreign financing sources while repaying the last of its IMF and rescheduled commercial debt. On the domestic front, following a period of fiscal expansion in 1985-87, inflation accelerated to above 60 percent a year and has remained at this level despite a sharp drop in the growth rate during 1988-89 and a moderate reduction in the public sector borrowing requirement from 7.8 percent of GNP in 1987 to 6 percent in 1989. Uneven conduct of monetary policy and increased financial instability undermined the fiscal effort in recent years. In 1990, a tight monetary program is likely to have some positive impact in reducing inflationary pressures but the obstacles for enacting a tighter fiscal policy remain formidable and include the prospect of greater real wage rigidity, a rising domestic debt burden, and significant tax evasion by individuals and corporations. Yet progress on reducing the fiscal deficit remains critical for restoring economic and financial stability.

Domestic Developments and Policies

The stabilization, price, and trade reforms in the first half of the 1980s were highly successful in shifting the emphasis within the Turkish economy from inward to outward orientation, thus laying the foundation for export led growth. But in the process a series of cyclical and structural difficulties either emerged or were exacerbated. Unemployment remained high, real wages in the public sector and in manufacturing fell significantly through 1988 and, reflecting the virtual stagnation of public investment, a large backlog of unmet needs had accumulated. While the deficits of state economic enterprises (SEEs) were reduced through greater flexibility in determining prices, more fundamental reform to improve efficiency in the sector was lacking. Finally, the rapid devaluations and abrupt shift from negative to positive real interest rates in the early 1980s resulted in an intensification of financial distress in key sectors of the economy.

In contrast to previous stabilization, government policy became more expansionary between 1985 and 1987. Public investment grew rapidly in 1985-86, partly reflecting a policy of fiscal decentralization, whereby local governments and extrabudgetary funds had increased access to revenues and financing. In 1986, the deterioration in the public sector borrowing requirement (PSBR) was limited by a real growth rate of over 8 percent, terms of trade improvement (from falling world oil prices), and continued real growth of fiscal revenues from the newly implemented value-added tax in 1985. However, the PSBR rose sharply in 1987 as public sector prices were suppressed prior to the November 1987 general elections, and interest payments began claiming a progressively larger share of fiscal outlays. Despite this price rigidity, inflation rose steadily through 1987 reflecting the stimulative financial policies, continued rapid output growth and the emergence of capacity constraints in key industries.

Following the November 1987 elections, SEE prices were adjusted and a number of indirect tax rates raised as part of a package to improve public finances. However, these adjustments, implemented at a time of negative real interest rates, increasing currency substitution and a widening premium between official and parallel exchange rates, contributed to a massive shift in the price level. By early 1988, 12-month inflation had risen to nearly 70 percent, thus close to doubling within six months.

Tighter monetary policy in early 1988 succeeded in stemming disintermediation from the banking system, though at the cost of sharply higher interest rates for nonpreferential credit. Coupled with declines (in real terms) of public sector wages and investment, the momentum of growth shifted swiftly, with industrial output contracting in the second half of 1988 and unemployment beginning to rise. In response to the weakening of economic activity, monetary policy was loosened in the second and third quarters of 1988. The re-emergence of negative real deposit rates contributed to a decline in real money demand for the year as a whole and set the stage for another speculative bout against the lira in October 1988. In response, monetary policy was again tightened, interest rate determination largely liberalized, and the growing foreign exchange reserves of the central bank used to stabilize the currency.

In 1989, inflation remained high despite a sharply slowing growth rate—GDP in 1989 is estimated to have grown by only 1 percent. The emergence of a current account surplus in 1988 shifted investor sentiment in favor of the Turkish lira since early 1989, resulting in a market driven appreciation of the real exchange rate by about 25 percent since the end of 1988. In an attempt to slow this appreciation the central bank accumulated significant reserves, but without adequate sterilization instruments, this action contributed to the growth of base money at a pace inconsistent with the government's lower inflation targets. Furthermore, higher food prices resulting from a severe drought in 1989 that cut agricultural output by 11 percent, and large increases in public sector real wages that adversely affected inflationary expectations and constrained fiscal adjustment also slowed the progress on inflation.

The perceived unevenness of recent fiscal and monetary policy has been affected by several constraints. The frequency of elections and the recent weakening of political support for the government have constrained policymaking. Political liberalization has also brought with it increased union assertiveness, which limits the resort to real wage adjustments that were relied upon earlier in the 1980s. The adverse impact of an extended recession on the economy's employment generating ability also acts as a powerful policy constraint. Monetary policy is also constrained by a financially distressed corporate and banking sector, particularly given the large spread between deposit and lending rates; in turn, the spread itself partly reflects this distress. Finally, after several years of high inflation, the expectations of economic agents may have become more rigid. The resulting inertia further undermines the effectiveness of stabilization measures.

External Developments and Policies

The external sector has shown a more even picture throughout the 1980s, with an impressive response to the stabilization and adjustment measures put in place. The key to the initial success was the Turkish export response. Stabilization accompanied by an aggressive exchange rate policy, trade liberalization, and export promotion quickly led to a large shift of productive capacity from domestic to export markets. Aided initially by buoyant Middle East markets, exports grew by about 20 percent per year in real terms and tripled their share of GDP between 1980 and 1985.

Current account deficits accordingly fell, from 6 percent of GDP in 1980 to 1.4 percent in 1987. In 1988, stagnant imports resulting from the weakening economy and rapid growth of service receipts, particularly tourism, combined to produce a current account surplus of $1.5 billion, Turkey's first surplus in 15 years. The surplus was reduced to about $1 billion in 1989 as import growth accelerated in the second half of the year and export performance was flat (a 7 percent growth rate to the OECD market was offset by a steeper decline to the Middle East). These changes in the trade account reflected a pick-up in economic activity, reductions in protection, an appreciating real exchange rate, and the liberalization of the market for gold imports. Workers remittances, however, grew by over 70 percent to $3 billion, taking advantage of the appreciating currency and the liberalized gold market, and inflows of direct investment rose to $663 million from only $110 million in 1987. Moreover, portfolio investment in a booming stock market, allowed by the liberalization of capital flows, Turkey's continued access to the international bond market, and positive errors and omissions inflows of nearly $1 billion, led to an increase in official reserves of $2.5 billion. By year-end 1989, official reserves (including gold) reached $6 billion, equivalent to four months of imports.

Turkey's external debt at end-1989 is estimated at $41 billion, equivalent to 52 percent of GDP and about 187 percent of exports. The debt service ratio in 1989 fell to 33 percent, from 36 percent during 1986-88. The small increase in total debt is due to the revision of the data to include refinanced foreign military sales and exchange rate variations between the U.S. dollar and other currencies. Both the debt service ratio and the ratios to GDP and exports, however, fell in 1989. The falling share of official and multilateral financing has resulted in a shortening of the average maturity of long-term debt. But reflecting the recent repayments of short-term debt, particularly by the central bank, the share of short-term to total debt declined to 14 percent in 1989 from 20 percent in 1986.

The relative abundance of foreign exchange over the recent period has allowed the government to take measures to liberalize trade, exchange rate determination and capital account transactions. The export tax rebate, an important source of subsidy for exporters in the 1980s was phased out by early 1989 and import tariffs were also reduced in 1989. An interbank foreign exchange market was established in mid-1988, rendering the exchange rate more responsive to market forces. Subsequently, domestic interest rate determination was also largely liberalized. In August 1989, regulations on capital account transactions were further eased, consistent with the government's objective of achieving full convertibility of the Turkish lira.

Development Issues and the Government's Program

The resurgence in inflation, and the consequent stabilization effort during 1988-89, have had an adverse impact upon the size and composition of investment in the economy. Rapidly falling real public investment in 1988-89 has been sufficient to lower the share of total investment. Although private investment was buoyant until 1988, its growth occurred largely in nontradables, particularly housing, while private investment in manufacturing has declined in real terms since 1986. One of the major policy challenges in the Turkish economy is therefore to reverse this trend, and to achieve efficient growth in manufacturing investment before exports and domestic demand expansion become constrained by a sluggish supply response. To this end the authorities must review and rationalize the structure of incentives to prevent the excessive channeling of resources into nontradables such as housing, while pursuing policies at the macro level to bring down inflation.

In May 1989, the sixth five-year plan for 1990-94 was announced. The macro targets of the plan include an average real growth rate of 7 percent, and steady declines in inflation and the PSBR together with moderate but growing current account surpluses through the period. External debt would thus be reduced in nominal terms; the share of short-term to total debt would continue to fall; and the debt service ratio would decline. Public investment would revert to positive real growth but nonetheless fall as a share of GNP. Faster growth of private savings and investment would permit both a rising share of total investment and the external surpluses. Within the overall investment framework, major objectives of incentives policies would be to encourage foreign exchange earning activities under competitive conditions, and to reduce inter-regional disparities. The policy context within which the plan is framed envisages continued enhancement of the private sector's economic role and Turkey's rapid integration into the world economy through further trade and capital account liberalization and expansion of foreign investment into the domestic economy. In this context, it is recognized that the numerical targets of the plan are necessarily indicative of government intentions, since rigid adherence to specific targets would contradict the spirit of further opening the economy to market forces.

The government envisages a more ambitious approach to privatization of SEEs than has occurred in the past, to improve efficiency in the industrial sector, diversify ownership, and as a means to reduce their fiscal drain. A decree to transform the bulk of SEEs into joint stock companies is expected to facilitate the privatization effort. The reduction of import tariffs in 1989 was designed to subject domestic firms to greater competition and hence dampen inflationary pressure. Further reductions in tariffs and levies are planned, consistent with a sustainable balance of payments position.

In recent years, and given fiscal and balances of payments constraints, insufficient attention was paid to the human resource base, to the extent that the foundation for future development potential may be eroded. Continued export growth and technological advancement is also dependent upon an adequate supply of highly skilled technical manpower. In the current five year plan, the government has accorded a high priority to upgrading education and health services.

TURKEY

Mid-1988 Population (mils.)	54
1988 Per Capita GNP in US$:	1,280

	A. Shares of Gross Domestic Product *(from current price data)*						B. Growth Rates(% per annum) *(from constant price data)*				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.6	4.7	5.6	3.7	1.3
Net Indirect Taxes	9.8	10.1	5.3	9.2	9.0	9.3	..	..	..	..	..
Agriculture	30.9	24.8	21.4	16.4	15.9	15.0	2.5	4.5	3.7	8.3	-11.1
Industry	22.4	23.1	28.6	32.6	33.0	32.3	7.9	5.5	6.6	2.2	3.0
(of which Manufacturing)	14.4	15.6	20.0	23.3	23.7	23.1	9.5	4.1	7.8	1.2	3.4
Services	36.9	42.1	44.7	41.8	42.1	43.5	8.4	5.2	5.1	4.5	3.9
Resource Balance	-1.4	-2.2	-7.8	-2.1	2.1	0.2	..	..	..	..	..
Exports of GNFS	6.3	8.8	6.4	20.4	24.0	22.8	9.6	-0.2	20.6	19.7	4.7
Imports of GNFS	7.7	11.0	14.2	22.4	22.0	22.7	10.8	-3.1	14.1	0.9	6.5
Total Expenditures	101.4	102.2	107.8	102.1	97.9	99.8	7.0	3.9	5.1	-0.1	1.6
Total Consumption	86.5	83.2	85.9	76.2	73.4	79.6	6.3	4.2	5.4	2.0	3.5
Private Consumption	74.2	70.7	73.4	67.1	64.6	68.7	6.4	3.7	5.8	1.9	4.0
General Government	12.3	12.5	12.6	9.1	8.7	10.8	5.7	7.5	2.8	2.7	0.3
Gross Domestic Investment	14.9	19.0	21.9	25.4	23.9	22.4	9.7	3.1	4.4	-6.4	-4.7
Fixed Investment	14.5	20.1	20.0	24.2	24.0	22.8	9.5	4.1	5.8	-1.6	-3.3
Changes in Stocks	0.4	-1.0	1.9	1.3	0.0	-0.4	..	..	..	..	..
Gross Domestic Saving	13.5	16.8	14.1	23.4	26.0	22.5	8.6	3.5	7.7	11.0	-11.9
Net Factor Income	0.4	-0.6	-2.0	-2.9	-3.0	-2.8	..	..	..	..	..
Net Current Transfers	0.0	5.9	3.8	3.0	2.5	4.0	..	..	..	..	..
Gross National Saving	13.9	22.1	15.9	23.5	25.5	23.7	11.6	1.2	6.3	8.2	-5.2
In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	17,124	29,077	39,559	58,299	60,468	61,239	6.6	4.7	5.6	3.7	1.3
Capacity to Import	1,898	4,265	2,212	11,865	14,427	14,130	9.5	-6.3	23.5	21.6	-2.1
Terms of Trade Adjustment	742	1,646	-171	0	227	-730	..	..	..	..	..
Gross Domestic Income	17,866	30,723	39,388	58,299	60,695	60,509	6.7	4.0	5.9	4.1	-0.3
Gross National Product	17,187	28,866	38,760	56,588	58,623	59,542	6.5	4.5	5.5	3.6	1.6
Gross National Income	17,930	30,513	38,589	56,588	58,850	58,811	6.6	3.8	5.8	4.0	-0.1

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	10.6	53.5	72.0	100.0	175.4	297.5	8.2	35.8	40.6	75.4	69.7
Wholesale Prices (IFS 63)	12.3	58.5	75.8	100.0	168.3	285.3	9.3	40.2	9.0	68.3	69.6
Implicit GDP Deflator	10.9	55.0	72.4	100.0	166.7	274.0	10.3	36.6	39.2	66.7	64.3
Implicit Expenditures Defl.	11.1	56.3	72.3	100.0	166.1	277.4	10.1	37.8	38.7	66.1	67.0

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.6	2.3	2.3
Labor Force	1.8	2.0	1.5
Gross Natl. Income p.c.	3.9	1.5	3.4
Private Consumption p.c.	3.8	1.3	3.4
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.6	-0.6	2.5
Marginal Savings Rates:			
Gross National Saving	35.2	-6.8	46.6
Gross Domestic Saving	21.8	4.2	49.1
ICOR (period averages):	..	7.3	4.8

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	74.5	67.2	62.5	55.1
Industry	8.7	11.1	13.8	14.2
Services	16.8	21.7	25.9	30.7
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
Crops (incl. Indust.Crops	84.4	91.7	106.9	100.0	122.0	..	1,541	1,454	1,561	1,497	2,004	1,797
Mining	70.4	101.0	113.7	100.0	98.9	..	191	244	247	272	377	413
Livestock and Fishery	30.2	70.4	93.8	100.0	87.0	..	131	265	325	356	337	329
Manufactures	11.1	77.6	70.6	100.0	103.6	..	1,047	5,995	5,324	8,065	8,944	9,088
Total Exports FOB	24.0	79.2	77.3	100.0	107.2	..	2,910	7,958	7,457	10,190	11,663	11,627

F. Merchandise Imports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
Agriculture & Livestock	5.2	48.4	56.1	100.0	61.4	..	50	375	457	782	499	1,041
Petroleum	61.9	83.5	91.2	100.0	111.8	..	2,953	3,487	1,980	2,909	2,707	2,723
Other Consumer Goods	..	..	..	..	..	..	144	139	165	125	155	179
Other Intermed. Goods	..	..	..	..	..	..	3,327	5,090	5,256	6,892	7,442	8,546
Capital goods	43.4	71.3	97.9	100.0	..	..	1,435	2,252	3,246	3,450	3,537	3,274
Total Imports CIF	44.8	71.4	82.8	100.0	102.3	..	7,909	11,343	11,104	14,158	14,340	15,763

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	119.0	98.7	94.6	100.0	106.7	104.6
Merch. Imports Price Index	124.5	112.2	94.6	100.0	98.9	100.4
Merch. Terms of Trade	95.5	87.9	99.9	100.0	107.8	104.2

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	3,620	10,873	10,279	13,842	17,043	18,166
Merchandise (FOB)	2,910	8,255	7,583	10,322	11,846	11,771
Non-Factor Services	710	2,618	2,696	3,520	5,197	6,395
Imports of Goods & NFS	8,082	12,563	12,013	15,246	15,571	18,539
Merchandise (FOB)	7,513	11,230	10,664	13,551	13,646	15,972
Non-Factor Services	569	1,333	1,349	1,695	1,925	2,567
Resource Balance	-4,462	-1,690	-1,734	-1,404	1,472	-373
Net Factor Income	-1,118	-1,338	-1,743	-1,996	-2,139	-2,219
(interest per DRS)	506	1,318	1,495	1,897	2,424	2,331
Net Current Transfers	2,153	1,762	1,703	2,066	1,806	3,135
(workers' remittances)	2,071	1,714	1,634	2,021	1,755	3,063
Curr. A/C Bal. before Off. Transf.	-3,427	-1,266	-1,774	-1,334	1,139	543
Net Official Transfers	18	236	246	352	364	423
Curr. A/C Bal. after Off. Transf.	-3,409	-1,030	-1,528	-982	1,503	966
Long-Term Capital Inflow	2,916	75	650	1,654	1,278	1,329
Direct Investment	18	99	125	110	352	663
Net LT Loans (DRS data)	1,881	424	1,738	1,720	1,882	1,031
Other LT Inflow (Net)	1,016	-448	-1,213	-176	-956	-365
Total Other Items (net)	566	857	1,413	-101	-1,633	471
Net Short Term Capital	-871	1,649	1,478	356	-1,979	-554
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	1,436	-792	-65	-457	346	1,025
Changes in Net Reserves	-72	98	-535	-571	-1,148	-2,766
Net Credit from the IMF	422	-100	-241	-315	-472	-253
Other Reserves Changes	-494	198	-294	-256	-677	-2,513
As Share of GDP:						
Resource Balance	-7.8	-3.2	-3.0	-2.1	2.1	-0.5
Interest Payments	0.9	2.5	2.6	2.8	3.4	2.9
Current Account Balance	-6.0	-2.4	-3.0	-2.0	1.6	0.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	1,077	1,056	1,412	1,776	2,344	4,780
Reserves incl. Gold (mil. US$)	3,298	2,318	2,913	3,631	3,912	6,298
Official X-Rate (LCUs/US$)	76.04	521.98	674.51	857.21	1422.35	2121.68
Index Real Eff. X-R Base 1980	100.00	78.05	65.39	62.13	60.00	65.60
GDP (millions of current US$)	56,919	52,783	58,246	68,013	70,887	79,096

I. Central Government Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1985	1986	1987	1988
Revenues	21.1	16.7	18.2	17.9	17.4	17.9	32.4	64.3	55.3	46.0	68.4
Tax Revenues	17.3	13.9	15.2	15.5	14.1	15.0	32.5	61.4	56.0	51.6	57.3
Non-Tax Revenues	3.8	2.8	3.0	2.4	3.3	2.9	17.9	79.8	51.7	17.9	140.7
Expenditures	24.9	19.6	21.8	22.4	21.3	21.7	36.9	42.5	58.7	52.4	64.4
Current	11.4	7.6	7.8	7.8	7.4	9.2	31.7	40.1	46.2	48.7	64.4
Interest Payments	0.7	2.4	3.4	3.9	4.9	5.0	99.0	52.8	97.5	70.2	119.7
Investment	4.4	4.1	5.1	4.5	3.5	2.8	38.4	51.7	80.2	30.8	34.9
Transfers	8.5	5.5	5.5	6.2	5.4	4.7	41.8	35.7	42.6	66.7	51.3
Budget Balance	-3.8	-2.9	-3.6	-4.5	-3.8	-3.9	56.0	-19.7	78.7	84.8	48.6
Cash Balance	-3.4	-3.3	-4.1	-4.4	-3.9	-3.9	61.7	-12.0	77.5	60.1	53.6
Financing	3.4	3.3	4.1	4.4	3.9	3.9	61.7	-12.0	77.4	60.1	53.6
Foreign Borrowing (net)	0.4	-0.8	0.0	-0.5	0.2	-0.3	107.5	-167.0	-96.4	3237.5	-165.9
Domestic Borrowing (net)	3.0	3.6	3.6	3.7	3.5	4.3		63.0	40.7	54.5	61.5
Other	0.0	0.5	0.5	1.1	0.3	-0.1		-	-	-	-

J. External Capital Flows, Debt and Debt Burden Ratios	1980	1985	1986	1987	1988	1989 e	1980	1985	1986	1987	1988	1989 e
Public & Publicly Guar. LT	1,835	516	1,636	1,565	1,859	..	15,007	19,539	24,291	30,604	33,448	35,228
Official Creditors	1,240	439	646	513	436	..	9,603	12,228	14,886	18,126	17,308	19,658
Multilateral	410	572	597	655	579	..	2,149	4,947	6,707	8,996	8,793	8,689
of which IBRD	267	481	401	471	360	..	1,158	3,432	4,662	6,290	6,130	5,866
of which IDA	-1	-4	-4	-4	-4	..	189	178	174	170	166	162
Bilateral	830	-133	49	-142	-143	..	7,454	7,282	8,178	9,130	8,515	10,969
Private Creditors	596	77	990	1,052	1,423	..	5,404	7,311	9,405	12,477	16,140	15,570
Suppliers	137	-80	264	157	-6	..	1,171	817	1,134	1,384	1,370	na
Financial Markets 2/	459	157	726	883	1,429	..	4,232	6,494	8,271	11,094	14,770	15,570
Private Non-guaranteed	46	-92	102	156	23	..	535	359	503	866	535	na
Total LT	1,881	424	1,738	1,720	1,882	..	15,542	19,898	24,793	31,470	33,983	35,228
IMF Credit	485	-251	-376	-451	-431	..	1,054	1,326	1,085	770	299	49
Net Short-Term Capital 1/	-871	1,649	1,093	356	-1,979	..	2,490	4,759	6,349	7,623	6,417	5,745
Total incl. IMF & Net ST	1,495	1,822	2,455	1,625	-528	..	19,086	25,983	32,227	39,863	40,699	41,022

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989 e
Share of Total Long-Term DOD						
1. IBRD as % of Total	7.45	17.25	18.80	19.99	19.40	18.30
2. IDA as % of Total	1.22	0.89	0.70	0.54	0.53	0.46
3. IBRD+IDA as % of Total	8.67	18.14	19.50	20.53	19.93	18.76
Share of LT Debt Service						
1. IBRD as % of Total	12.14	10.87	16.87	15.72	16.07	15.83
2. IDA as % of Total	0.23	0.13	0.15	0.10	0.08	0.09
3. IBRD+IDA as % of Total	12.37	11.00	17.02	15.82	16.15	15.92
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	270.66	151.88	198.87	191.26	173.86	160.90
2. IMF Credit/Exports	18.36	10.12	8.70	4.68	1.53	0.22
3. Short-Term Debt/Exports	43.36	36.33	50.93	46.33	32.83	26.24
4. LT+IMF+ST DOD/Exports	332.39	198.33	258.50	242.27	208.22	187.37
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	27.30	37.70	42.57	46.27	48.06	44.54
2. IMF Credit/GDP	1.85	2.51	1.86	1.13	0.42	0.06
3. Short-Term Debt/GDP	4.37	9.02	10.90	11.21	9.08	7.26
4. LT+IMF+ST DOD/GDP	33.53	49.23	55.33	58.61	57.56	51.86
Debt Service /Exports						
1. Public & Guaranteed LT	18.30	26.90	27.09	27.99	31.05	27.94
2. Private Non-guaranteed LT	0.85	1.20	0.90	2.00	1.01	0.68
3. Total Long-Term Debt Service	19.15	28.10	27.99	29.99	32.07	28.62
4. IMF Repurchases+Serv. Chgs.	3.59	3.14	4.00	3.24	2.21	1.22
5. Interest only on ST Debt	5.21	3.66	3.71	2.94	1.92	2.91
6. Total (LT+IMF+ST Int.)	27.96	34.90	35.70	36.17	36.20	32.75

Notes:

1/ Data reflects GOT revision of short and long term debt. MLT debt now includes refinanced foreign military sales (FMS). These changes are currently being incorporated in the World Bank DRS.

2/ Financial markets include Dresdner, Bonds, and other forms of private financing.

e = 1989 debt stock figures are Government estimates. The corresponding net flows are not available.

Uganda

Despite being a landlocked country, Uganda had one of the most promising economies in Sub-Saharan Africa at the beginning of the 1960s. In addition to the ample availability of fertile land and favorable climate for agricultural growth, it had a relatively well-developed manufacturing sector and an adequate transportation system. The GDP growth was about 6 percent per annum from 1963 to 1970, and relative price stability was maintained.

However, starting in 1970, political turmoil and economic mismanagement radically changed the situation. As a consequence of extensive economic, social and political destruction, real GDP declined by about 20 percent between 1972 and 1985.

Recent Developments

The National Resistance Movement (NRM) government, which took power in January 1986, inherited an extremely difficult economic situation. A greater part of major trunk roads and the nation's vehicle fleet had been destroyed, once productive agricultural lands lay in ruins, and most manufacturing plants had closed down. Discipline and accountability in the public service had all but collapsed. The new government also inherited a considerable external debt burden, with the total debt service ratio of more than half of the FY85 export earnings.

The Economic Recovery Program

In May 1987, following the NRM government's increasingly successful program to restore peace and security in Uganda, an economic recovery program (ERP) was launched with assistance from the IMF and World Bank. Bilateral donors also gave strong support to the program.

The ERP had three principal aims: (i) bring about internal financial stability and lower the rate of inflation; (ii) reduce imbalances in the external accounts; and (iii) promote economic growth. When the ERP was first announced in 1987, it was accompanied by a devaluation of the Ugandan shilling by 77 percent in foreign currency terms, a currency reform, a 30 percent conversion tax levy on all liquid assets held by the public, and major increases in producer prices to restore incentives. Additional steps were taken by the government in the following twelve months to reduce controls in domestic and external trade, and to streamline industrial licensing procedures to encourage competition and reduce bureaucratic delays. A limited Open General Licensing (OGL) system was put in place to rationalize the foreign exchange allocation procedures and to ensure a steady flow of imports to key sectors.

The results of the 1987/88[1] ERP were mixed. On the one hand, real GDP at factor cost grew by about 5 percent. The recovery of production occurred in response to higher producer incentives, a modest increase in the availability of foreign exchange, and improved transportation and security. On the other hand, the program failed to achieve its stabilization objective as evidenced by the 240 percent increase in the consumer price index and the real appreciation of the Ugandan shilling by 217 percent. Exogenous shocks, principally the decline in world coffee prices and the slow disbursement of donor funds contributed to the failure of demand management. However, a principal reason for failure was the government's inability to take corrective action when it became clear that the fiscal targets were being missed by a wide margin because of large shortfalls in revenue as well as overspending. Money, broadly defined (called "broad money"), was allowed to increased by 230 percent compared to a program target of 40 percent, with government indebtedness to the banking system increasing by USh 7.5 billion in contrast with a targeted reduction. A tripling of crop financing requirements for coffee, stemming from adjustment of producer prices and increased deliveries of non-exportable stock, was a major factor behind the explosion of monetary growth.

To put the ERP back on track, the government announced more stringent policy initiatives in July

1. Fiscal year ends June 30 of the specified year.

1988. During the first six months of FY88-89, the government was successful in tightening control over recurrent expenditure and, despite significant shortfalls in revenue and external assistance in this period, met its fiscal targets on budget deficits. A Monitoring Committee was set up to evaluate performance under the program on a monthly basis, and to propose corrective action when necessary. Deciding that the OGL scheme was not adequate for the liberalization of foreign exchange allocation on a significant scale, the government began to allocate foreign exchange for a wide range of imports on a first-come, first-served basis (Special Import Program, SIP). As a result, demand management began to yield the desired benefits. After an initial increase of about 22 percent in July 1988, reflecting the one-time impact of the July devaluation of 60 percent and changes in administered prices, the consumer price index rose by only 7 percent in the subsequent six months. Inflation was reduced in these months despite a devaluation of 9.1 percent in December 1988, the dismantling of most price controls, and increases in the duty and prices of petroleum products.

The encouraging results in the first half of FY88-89 led the government to accelerate the implementation of reforms and seek additional support from the IMF and IDA. To this end, the government announced a package of policy actions in March 1989 including: (i) devaluation of the Uganda shilling by 17.5 percent in foreign currency terms (from USh 165 to USh 200 per US$); (ii) raising maximum interest rates on commercial bank lending by 10 percentage points and minimum interest rates on commercial bank deposits by 5 percentage points; (iii) raising duties and pump prices on petroleum products by one-third; (iv) extending the 100 percent export retention scheme to include all non-coffee exports.

Despite these positive developments, structural problems remained and inflation again accelerated in the last five months of 1988/89. Beginning in January 1989, crop financing requirements grew rapidly owing to increased deliveries of coffee under the new crop financing scheme which the government had adopted toward the end of 1988. Although the scheme succeeded in achieving the government's objective of clearing the Coffee Marketing Board's (CMB) arrears to coffee producers and ensuring prompt payment to farmers, it did so by providing credit through the Bank of Uganda (BOU) with a consequent inflationary impact. In addition, CMB continued to have difficulty exporting coffee, and this resulted in a large accumulation of coffee stocks. Problems were also encountered with the government budget. The large shortfall in external grants, the decline in coffee tax revenues owing to weak world prices and the overruns in expenditure resulted in government liabilities to the banking system increasing by USh 12.3 billion, instead of contracting by USh 5 billion as intended in the program. Demand pressures were further fueled by an unprogrammed increase in private sector credit between January and April 1989, caused partly by the increase in commercial bank lending for importers. Also during this period, the amount allocated for the SIP declined by US$5.0 million a month, principally due to the shortage of foreign exchange and to institutional problems in the BOU impeding disbursements.

As a result of these factors, the stabilization targets for 1988/89 were not met. Inflation accelerated between February and June 1989, averaging 8 percent a month, with a year-end rate of 86 percent as against the program target of 60 percent. Broad money grew by an estimated 125 percent in 1988/89, fuelled by the 297 percent growth in credit for crop finance, the 190 percent growth in other private sector credit, and the 100 percent growth in government indebtedness to the banking system. Although the rate of expansion of money and credit moderated considerably during the first quarter of 1989/90, the end September 1989 credit ceilings were also not met mainly because it became difficult to reverse the large credit expansion that had already taken place through June 1989. While the year-end inflation of 86 percent for FY88-89 was a considerable improvement over the previous year, underlying inflationary pressures remain and there are still serious structural problems which need to be addressed.

In view of the slippages that had taken place in policy implementation up to the first quarter of FY89-90, the government initiated a revised program for 1989/90 that contained strong corrective measures. Consistent with the program's objectives of maintaining Uganda's external competitiveness, the exchange rate which had not been adjusted since March 1989 was devalued by 41.2 percent in foreign currency terms from USh 200 to USh 340 per U.S. dollar. Furthermore, with effect from November 1989, the authorities have been monitoring the exchange rate more closely and making monthly adjustments to prevent any real effective appreciation. In line with this policy, the nominal exchange rate of the shilling has depreciated further to USh 384 per U.S. dollar in May 1990. Monetary policy was programmed to be much tighter in FY88-90 with overall increases in credit being limited to only 10 percentage points of a 21 percent expansion in money, broadly defined. The program also included actions to improve CMB operations and to strengthen coffee management policies including limitations on barter shipments of coffee, prepayments for all barter sales that take place, and strict imposition of discounts on wet and impure coffee.

In response to these measures, the domestic economic situation has responded favorably. Output growth has continued in the 6 to 7 percent range reflecting, in particular, strong agricultural performance. Agricultural production registered a marked recovery and manufacturing output continued to grow. Coffee purchases declined, however, reflecting in part physical constraints on the movement of produce and a decline in the relative profitability of coffee operations to both growers and processors. The inflation rate has declined sharply to 29 percent for the 12 month period ending June 1990.

Key Development Issues

Agriculture. Agriculture is the predominant sector of the economy and will continue to play a critical role for some time to come. It accounts for more than 75 percent of the value added, most of its foreign exchange earnings and supports 86 percent of the population. The sector consists largely of smallholder farms, which accounts for the tremendous resilience of Uganda's agriculture. Challenges facing the sector are many. The farm-processing plant-market link, long disrupted, must be re-established through rehabilitation of rural access roads and the transportation network. Diversification efforts to reduce the economy's overdependence on coffee are of top priority. Initially, other traditional crops such as tea, cotton and tobacco need to be revitalized while expansion into nontraditional areas such as beans, sim-sim, groundnuts, or other high-value crops is encouraged. The extension of the 100 percent retention scheme to all non-coffee exports and measures to liberalize their export marketing constitute significant steps toward export diversification. Problems associated with coffee financing and marketing have contributed substantially to inflationary pressures. To address this problem, financial and physical benchmarks are being developed for the management of the coffee subsector, including the introduction of a coffee subsector budget with indicative credit ceilings. The government has also introduced penalties for impure and wet coffee in order to improve the quality and value of processed coffee delivered to the Coffee Marketing Board.

Industry. Years of uncertainties brought about by social unrest, expropriation, mismanagement and stop-and-go process of import allocations owing to binding foreign exchange constraints have been particularly damaging to the industrial sector. The limited OGL system has provided a degree of certainty to eligible firms in key industries and capacity utilization of these firms has increased. However, disbursements have been slow, and the introduction of the more streamlined SIP has provided quick foreign exchange to a wider range of industrial and agricultural enterprises, thereby significantly liberalizing imports. For the immediate future, the industrial sector is expected to depend heavily on imports for spare parts and intermediate goods under the OGL/SIP system. However, the problems the sector faces go far beyond the foreign exchange constraint and include management capability, the need to reassess market opportunities, finance, technological know-how, and revitalization of the once vibrant private sector.

Financial Sector. The financial sector in Uganda is at an early stage of development. There are no capital markets or merchant banks, and only a limited money market. The institutional system of payments is inefficient and there is heavy reliance on barter and informal market transactions. The degree of financial sector development, as measured by the ratio of broad money supply to GDP, is one of the lowest in the world, as is the domestic savings rate. The central bank lacks the authority and the capacity to preserve the integrity of the financial system and more than half the commercial banking system is insolvent. The inability of the sector to efficiently mobilize and allocate financial resources within the economy is a serious problem for macroeconomic stability and recovery.

Productive and Social Infrastructure. Rebuilding the infrastructure for transport, telecommunications, power and water supply, and enlarging it to accommodate the growing demands of the productive sectors are a priority in the government's investment program. As a landlocked country, Uganda has to secure adequate international transport services for its exports and imports. The government is continuing its efforts to restore its road and rail systems and to establish a sustainable maintenance system. The government is also taking measures to rehabilitate the health services which had deteriorated to crisis proportions and has begun rehabilitating and re-equipping schools whose facilities have been destroyed and pilfered. The budget for education, however, has remained exceptionally low, particularly at the primary level. Expanding enrollment, coupled with inadequate financing, has resulted in a serious decline in the quality of education. The government has recently completed a review of education policy which will form the basis for a program to restore education of quality, while gradually moving toward universal primary education. Finally, the government is concerned about the plight of vulnerable groups who are likely to be in precarious economic conditions in the short run owing to the drastic decline in real incomes over the past 15 years or to certain elements of the adjustment program (e.g. likely civil service retrenchment).

Civil Service and Public Administration. One of the most difficult challenges facing the government is the urgent need to rehabilitate the civil service in Uganda. In recent years, public sector employment has grown rapidly, real basic salaries have declined sharply, and complementary inputs have been inadequate. Weaknesses in key parastatals (Bank of Uganda, Coffee Marketing Board and Uganda Commercial Bank) also contribute to the problems in short-term economic management. The government has recently taken a number of significant steps to re-establish financial and personnel management systems and related controls and to streamline the civil service to an affordable and sustainable size. Although the measures that have been taken are expected to halt the explosive growth in public sector employment, the government must now address the issues of implementing staff reductions and improving the remuneration package to provide reasonable work incentives for the staff who are retained. A Public Service Review and Reorganization Commission has been set up to guide the implementation of the reform measures and to recommend further actions.

Environment. War and a general state of chaos have taken a heavy toll on the environment in Uganda. Population pressures have led to extensive encroachment in forest lands for cultivation and fuelwood supplies. In order to establish an appropriate institutional framework for the management of the environment, the government has created a Ministry of Environment Protection which is beginning to address some of the pressing environmental issues facing the country, particularly in the area of forest protection and management. An Institute of Environment and Natural Resources has also been established at Makerere University to conduct environment research and the dissemination of information on environmental protection.

External Capital Requirements and Debt Servicing. Uganda's balance of payments situation has been seriously affected by the collapse of the International Coffee Agreement (ICA) in July 1989. Coffee, primarily robusta, accounts for about 98 percent of the country's export earnings. Following the collapse of the ICA, there was a sharp decline in robusta coffee prices from US$1.80/kg to US$0.90/kg. Prices have since risen slightly (currently US$1.03/kg), but are expected to recover marginally over the next couple of years. With aggressive export marketing, Uganda can be expected to maintain a sales volume of about 2.7 million bags, the level achieved in FY88-89. Nevertheless, the severity of the price decline implies that in 1990 and 1991, export receipts are expected to be lower than in recent years.

Uganda's external debt service ratio is now likely to be significantly higher than had been expected, owing to the decline in projected coffee receipts. A significant proportion of Uganda's debt service obligations are to multilateral organizations; the debt service ratio to the IMF alone will amount to 21 percent of exports of goods and services in 1990.

UGANDA

Mid-1988 Population (mils.)	16
1988 Per Capita GNP in US$:	280

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987 1/*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989 1/*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	4.0	-4.1	1.6	7.1	6.3
Net Indirect Taxes	7.1	9.7	2.1	4.3	5.2	4.1	..	..	..	..	6.3
Agriculture	48.6	55.0	70.5	68.7	66.7	65.9	3.6	-2.3	0.3	7.1	4.9
Industry	12.2	8.7	4.4	7.3	8.1	8.5	3.0	-11.9	6.4	11.6	12.0
(of which Manufacturing)	7.4	6.1	4.2	3.5	4.1	4.6	4.0	-12.4	2.3	24.1	18.2
Services	32.2	26.6	23.0	19.6	19.9	21.5	3.8	-1.1	3.4	5.4	8.5
Resource Balance	1.2	3.2	-6.5	-3.2	-6.5	-7.4	..	..	..	..	-27.0
Exports of GNFS	25.6	15.5	19.1	6.8	5.3	5.7	..	..	..	..	22.4
Imports of GNFS	24.4	12.3	25.6	10.0	11.8	13.1	..	..	..	..	-4.8
Total Expenditures	98.8	96.8	101.5	103.2	106.5	106.2	..	..	..	..	4.3
Total Consumption	87.7	88.6	95.4	92.3	93.2	93.9	..	..	..	..	5.9
Private Consumption	77.8	..	..	86.9	87.1	87.9	..	..	..	..	6.2
General Government	9.9	..	..	5.4	6.2	6.0	..	..	..	..	1.9
Gross Domestic Investment	11.1	8.2	6.1	11.0	13.2	12.4	..	..	..	..	-7.5
Fixed Investment	12.3	7.7	..	11.0	13.2	12.4	..	..	..	..	-7.5
Changes in Stocks	-1.2	0.5	..	0.0	0.0	0.0	..	..	..	..	..
Gross Domestic Saving	12.3	11.4	-0.4	7.7	6.8	5.0	..	..	..	..	11.2
Net Factor Income	-2.1	-0.8	-0.4	-0.8	-0.9	-1.2	..	..	..	..	11.9
Net Current Transfers	0.0	-0.2	0.0	1.7	2.0	2.1	..	..	..	..	-9.5
Gross National Saving	10.2	10.4	-0.8	8.6	7.8	5.9	..	..	..	..	5.9
In billions of LCUs (at constant 1980 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	126	171	125	146	156	164	4.0	-4.1	1.6	7.1	6.3
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	4.7
Gross National Product	123	169	125	143	154	..	4.2	-4.1	1.5	7.2	6.2
Gross National Income	..	..	..	..	..	..	..	..	..	..	4.6

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	0.9	11.0	29.6	100.0	283.6	..	..	..	98.9	183.6	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	1.0	15.1	33.5	100.0	289.8	537.0	5.6	45.7	101.0	189.8	85.3
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.4	2.6	3.2
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	10.6	45.4	..
Gross Domestic Saving	8.5	47.3	..
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	90.9	88.2	85.9	..
Industry	2.9	3.7	4.4	..
Services	6.2	8.1	9.7	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index						Value at Current Prices (millions US$)					
	1980	1985	1986	1987	1988	1989	1980	1985 1/	1986	1987	1988	1989
X.BEV.COFFEE	74.1	102.2	92.6	100.0	..	..	339	353	360	366	286	276
X.OAGRI.COTTON	65.8	211.8	108.6	100.0	..	..	4	1	9	6	7	4
X.BEV.TEA	55.6	155.6	177.8	100.0	..	..			3	2	1	1
X.OAGRI.TOBACCO	37.5	100.0	112.4	100.0	..	..		..	..	..	..	1
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	3	29	8	11	11	7
Total Exports FOB	..	..	..	..	..	..	346	383	380	384	305	289
F. Merchandise Imports												
Food	..	..	..	..	..	..	29	10	10	13	14	14
Fuel and energy	..	..	..	..	..	..	124	76	61	63	69	75
Other Consumer Goods	..	..	..	..	..	..	63	55	62	104	118	107
Other Intermed. Goods	..	..	..	..	..	..	23	94	88	120	134	131
Capital goods	..	..	..	..	..	..	85	169	159	215	241	235
Total Imports CIF	..	..	..	..	..	..	324	404	380	514	576	562

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988 1/	1989
Merch. Exports Price Index	..	..	..	..	100.0	226.2
Merch. Imports Price Index	..	..	..	..	100.0	298.4
Merch. Terms of Trade	..	..	..	..	100.0	243.9

H. Balance of Payments	US$ millions (at current prices)					
	1980	1985 1/	1986	1987	1988	1989
Exports of Goods & NFS	329	408	390	406	327	312
Merchandise (FOB)	319	383	380	384	305	289
Non-Factor Services	10	25	10	22	22	23
Imports of Goods & NFS	441	484	446	600	713	713
Merchandise (CIF)	318	404	380	514	576	562
Non-Factor Services	123	80	66	86	137	151
Resource Balance	-112	-76	-56	-194	-386	-401
Net Factor Income	-7	-53	-44	-47	-57	-67
(interest per DRS)	2	-53	-44	-47	-57	-67
Net Current Transfers	-2	40	101	100	120	114
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-121	-89	1	-141	-323	-354
Net Official Transfers	38	64	25	40	126	158
Curr. A/C Bal. after Off. Transf.	-83	-25	26	-101	-197	-196
Long-Term Capital Inflow	-30	49	-17	81	172	181
Direct Investment	..	..	..	..	..	..
Net LT Loans (DRS data)	114	88	48	77	98	123
Other LT Inflow (Net)	-144	-39	-65	4	74	58
Total Other Items (net)	58	15	30	-3	40	-4
Net Short Term Capital	123	-15	1	-31	37	-17
Capital Flows N.E.I.	0	30	29	28	10	13
Errors and Omissions	-65	..	..	..	-7	..
Changes in Net Reserves	55	-39	-39	22	-14	19
Net Credit from the IMF	26	-70	-35	-3	-17	7
Other Reserves Changes	29	31	-4	25	3	12
As Share of GDP:						
Resource Balance	-6.5	-2.4	-1.5	-3.2	-6.4	-7.4
Interest Payments	0.1	-1.6	-1.2	-0.8	-0.9	-1.2
Current Account Balance	-7.0	-0.8	0.7	-1.7	-3.2	-3.6
Memorandum Items:						
Reserves excl. Gold (mil. US$)	3	27	29	55	49	28
Reserves incl. Gold (mil. US$)	3	27	29	55	49	28
Average X-Rate (LCUs/US$)	0.07	5.08	10.85	19.80	60.00	170.40
Index Real Eff. X-R Base 1980	100.00	17.05	17.97	22.39	20.89	..
GDP (millions of current US$)	1,724	3,222	3,625	5,999	6,063	5,379

Budget	Share of GDP (%) 1980 1/	1985	1986	1987	1988	1989	Growth Rates 1980-85	1986	1987	1988	1989
A. Total Revenue	3.2	9.9	7.2	4.9	6.3	5.4					
B. Total Expenditure	6.2	14.6	12.0	9.3	12.2	10.7					
C. Overall Balance (Cash)	-3.1	-4.3	-4.8	-4.6	-6.3	-6.3					
1. Budgetary Grants		0.5	1.3	0.5	1.8	1.2					
2. Net External Borrowing		0.6	1.1	0.3	2.4	2.7					
3. Domestic Financing	3.1	3.3	2.4	3.8	2.1	2.5					

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985 1/	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985 1/	1986	1987	1988	1989
Public & Publicly Guar. LT	114	88	48	77	98	123	603	737	894	1,142	1,387	1,409
Official Creditors	85	..	..	..	..	..	456	737	894	1,142	1,387	1,409
Multilateral	33	..	..	..	..	..	113	384	518	684	817	895
of which IBRD	-1	-1	-2	-2	-3	-4	1	36	40	46	47	40
of which IDA	1	62	76	86	92	85	46	231	328	452	560	629
Bilateral	52	..	..	..	..	..	344	353	376	457	570	514
Private Creditors	29	..	..	..	..	..	147	..	..	..	..	..
Suppliers	-2	..	..	..	..	..	109	..	..	..	..	..
Financial Markets	32	..	..	..	..	..	37	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	114	88	48	77	98	123	603	737	894	1,142	1,387	1,409
IMF Credit	36	-58	-82	-23	-31	-21	61	291	256	252	235	225
Net Short-Term Capital	35	-15	1	-31	37	-17	66	..	..	..	..	..
Total incl. IMF & Net ST	185	15	-33	23	104	85	730	1,028	1,150	1,394	1,622	1,634

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.12	3.52	3.46	3.31	2.88	2.46
2. IDA as % of Total	7.70	22.51	28.50	32.43	34.50	38.48
3. IBRD+IDA as % of Total	7.80	26.03	31.96	35.74	37.38	40.94
Share of LT Debt Service						
1. IBRD as % of Total	3.56	3.10	6.62	12.91	16.70	5.30
2. IDA as % of Total	3.20	3.88	6.61	11.30	15.77	4.16
3. IBRD+IDA as % of Total	6.80	6.98	13.23	24.21	32.46	9.46
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	182.80	180.71	229.07	280.94	424.10	451.14
2. IMF Credit/Exports	18.50	71.38	65.62	62.01	71.87	72.02
3. Short-Term Debt/Exports	19.90	..	..	..	..	..
4. LT+IMF+ST DOD/Exports	221.10	252.09	294.69	342.95	495.96	523.16
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	35.00	22.87	24.65	19.03	22.87	26.20
2. IMF Credit/GDP	3.50	9.03	7.06	4.20	3.88	4.18
3. Short-Term Debt/GDP	3.80	..	..	..	..	..
4. LT+IMF+ST DOD/GDP	42.30	31.90	31.71	23.23	26.75	30.38
Debt Service /Exports						
1. Public & Guaranteed LT	6.70	18.75	14.01	9.74	10.70	42.31
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	..
3. Total Long-Term Debt Service	6.70	18.75	14.01	9.74	10.70	42.31
4. IMF Repurchases+Serv. Chgs.	4.88	19.72	23.61	19.09	20.21	22.66
5. Interest only on ST Debt	..	..	..	..	..	..
6. Total (LT+IMF+ST Int.)	11.60	38.47	37.62	28.84	30.91	64.97

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

1/ Data in fiscal year (ending in June 30) from here onwards.

Uruguay

Uruguay is a small country in both area (176,000 square kilometers) and population (3 million). It has homogeneous population, good communications, and a high level of socioeconomic development. Per capita income is high by Latin American standards (about US$2,440 in 1988), and income distribution compares favorably with that of many developed countries. Demographic characteristics are atypical for a developing country: an aging population, low gross reproduction rate (1.2 percent a year), and high life expectancy at birth (72 years). The natural rate of population growth is about 0.8 percent a year, but because of significant emigration, population growth is only 0.6 percent a year. These, combined with the past buildup of social services, create a substantial demand for education, health and social security benefits. The population is mostly urban (87 percent) and well educated; about 45 percent resides in Montevideo, the capital city.

Uruguay was very prosperous in the early part of the twentieth century, following an outward-oriented strategy based on exporting livestock products. The wool-beef export-led growth model faltered in the 1930s as a result of the trade discrimination, protectionism, and competitive devaluations that prevailed during the Great Depression. Uruguay turned to an import-substitution model stimulated by the shortage of consumer goods during World War II and the immediate post-war period. The small domestic market offered limited opportunities for import-substitution, which, as a source of growth, were exhausted by the mid-1950s; moreover, the industrial sector that developed under the protective umbrella was not competitive. Adverse external markets and a welfare-oriented economic and social conditions further discouraged growth and stifled export production. The ensuing crisis forced the government in the early 1970s to alter fundamentally Uruguay's macroeconomic strategy and policies.

Restructuring the Economy

Between 1973 and 1982, significant efforts were made to open the economy and enhance market forces in resource allocation. Major structural reforms were introduced in fiscal, monetary, exchange rate, tariff and domestic pricing policies. First, a substantial overhaul of the tax system reduced or eliminated distortions in relative prices between capital and labor, as well as those favoring import substitution versus export activities. Second, import liberalization was a major policy objective. Apart from the reduction of maximum tariff rates and the number of rates of the tariff schedule, import quotas and licensing requirements were eliminated in 1975 and controls on capital goods imports terminated in 1977. Third, financial liberalization was an important component of the reform program. Exchange controls were eliminated, capital and current transactions freed, foreign currency and secret deposits legalized, ceilings on interest rates eliminated, credit allocation guidelines abolished, and legal barriers to the entry of new commercial banks removed. Fourth, price controls were progressively removed. About 66 percent of the gross value of agricultural production was subject to price controls until the late 1970s; of this, livestock products represented about 85 percent. In 1978, prices of most agricultural and livestock products were freed.

The economy's response was generally positive until new policies were introduced in 1979 aimed at a rapid deceleration of inflation through a pre-announced exchange rate schedule (tablita) and at improving industry's competitiveness. These clashed with the monetization induced by the easy credit fueled by the large inflow of foreign funds, the expanded public deficit and large external borrowings. The peso became overvalued, eroding export competitiveness and domestic production; external debt increased sharply and massive capital flight ensued. The government belatedly abandoned its approach in 1982 with a major devaluation. Inflation subsequently accelerated, producers' debt soared, and servicing foreign loans became very troublesome.

The economic scorecard for 1982-84 reflects the severe ensuing recession from which Uruguay has still not fully recovered. Real GDP declined over one-sixth; unemployment climbed from 6 percent in early 1981 to 16 percent in 1983 and was still at 13 percent in 1984, and real wages dropped over 30 percent. The terms of trade deteriorated by about 7 percent. The public sector deficit increased from 0.5 percent of GDP in 1980 to 18.3 percent in 1982, but then declined to 9.2 percent in 1984. Inflation accelerated and prices rose by 52 percent in 1983 and 66 percent in 1984. After the 1982 devaluation, private sector firms were left with a serious debt burden to commercial banks, some of which subsequently became insolvent.

Post-1985 Adjustment Program

Following elections in late 1984, a civilian administration took office in March 1985, and immediately took action to reverse the economic decline and restore private sector confidence. The government's first priority was to stabilize the economy.

A parallel effort of the government was addressed to debt restructuring, beginning with the 1986 Multi-Year Rescheduling Agreement (MYRA). It provided relief of about US$2.1 billion (US$1.7 billion with commercial banks; US$0.4 billion with Spanish, Brazilian, and Argentine banks) during 1985-89. In turn, creditor banks agreed to provide fresh medium-term voluntary financing for US$45 million in the framework of a Bank (B-Loan) facility. In 1988, Uruguay renegotiated successfully the terms of the MYRA (for the US$1.7 billion portion) obtained a reduction of the spread to 7/8 over LIBOR, expanded coverage of the rescheduling to 1985-91 amortization payments, and extended the repayment period to 17 years with 4 years of grace.

A third major effort was undertaken to create conditions for sustained growth. The government embarked on a medium-term development program to help stimulate increased investment and exports, which the Bank supported with the 1987 and 1989 structural adjustment loans.

The economy's response was robust. Real GDP increased vigorously (7.5 percent in 1986 and 5.9 percent in 1987) resulting in a 13 percent increase in per capita income, a 20 percent cut in unemployment from December 1985 to December 1987, and a 10 percent recovery of real wages. The inflation rate, after accelerating to 83 percent in 1985, dropped to 57 percent in 1987. Export of goods and services grew by 18 percent a year in dollar terms (12 percent in real terms) and imports of goods and services rose 13 percent a year in dollar terms (9 percent in real terms) in 1986-87, reflecting renewed private sector confidence (imports of capital goods increased by over 30 percent).

Uruguay's economic recovery slowed, however, in 1988/89 with GDP growth of less than 1.0 percent, despite continued buoyant exports. The investment/GDP ratio dropped to 8.0 percent of GDP in 1989, of which private investment accounted for 5.2 percentage points. The lower-than-expected-growth performance is explained by: (i) the contractionary effect of demand management measures taken in the second semester of 1987 which were designed to avoid overheating the economy and stem the rising tide of imports which threatened timely debt service because of the erosion of the trade surplus; (ii) a significant drop in the inflow of Argentine tourists on account of the relative appreciation of the NU peso versus the Austral; (iii) protracted labor disputes in important manufacturing sectors; and (iv) a severe drought. Inflation accelerated to a 70-90 percent range. The main reasons were: (i) a larger fiscal deficit (6.5 percent of GDP in 1989, 1.8 percent above 1988); (ii) the liquidity impact of large capital inflows; (iii) the expansion of bank credit; (iv) the transitorily reduced supply of meat, fruit and vegetables which had ripple effects in the indexed economy; and (v) higher electricity tariffs because of increased reliance on more costly thermal generation.

These developments illustrate the influences of external forces on growth and macroeconomic stability and government programs in this small economy. First, the improved economic performance of 1986-87 was facilitated by: (i) better markets in Brazil and Argentina on account of the Cruzado and Austral plans, (ii) lower LIBOR (almost 40 percent lower in 1986 than two years earlier), which helped reduce the public sector deficit; and (iii) lower oil import prices (almost 49 percent lower in 1986 than in 1985).

Second, the deterioration in economic performance in 1988-89 was in part attributable to negative external factors, for example: (i) a sharp reduction in export sales and tourism services to Argentina; (ii) a drop in exports to mainland China; (iii) higher LIBOR (1988 = 8.13 percent; 1989 = 9.27 percent) which increased the public sector deficit; (iv) the drought deteriorated the finances of the power company (and thereby also expanded the overall public sector deficit) through reduced sales; and (v) the drought also affected adversely agricultural production of foodstuffs and livestock and industrial output through electricity rationing; the slowdown subsequently reduced government revenues. Some of these factors impinged adversely on macroeconomic management, which itself suffered some reverses.

The new government that took office on March 1, 1990 confronted a sluggish real economy and low investments, inflation approaching three-digit levels, a large fiscal deficit (expected to increase from 6.5 percent of GDP in 1989 to about 8.5 percent of GDP in 1990 owing to increased retirement pensions resulting from a successful referendum) and high nominal interest rates. The government quickly designed and began implementing a stabilization program for 1990-91. This program aims at reducing inflation inter alia by cutting the public deficit to about 3.7 percent of GDP in 1990. This will be achieved through continuing employment and expenditure curbs, lower real wages, tax hikes, and reductions of social security benefits.

The economic team has already presented the necessary legislation to Parliament and moved to (i) increase tax revenues by about 3 percentage points of GDP (legislation already approved) to more than compensate for the increased social security pensions; (ii) trim government rolls, reduce public investment and current expenditure; (iii) hike public sector tariffs substantially; and (iv) reduce social security benefits by introducing legislation to raise the eligibility age and pension base (from 3 to 10 years), while cutting the wage replacement ratios. It also expects to define better revenue sources for the old age, survivors and disability program, and the parallel welfare activities in order to cover the total social security system deficit. They also plan important reforms on labor legislation and public enterprises which would contribute to reduce further the deficit. All these measures would be reinforced by reducing interest payments on Uruguay's foreign commercial debt, which the authorities are now actively seeking.

Another promising sign is that the authorities are considering a gradual deindexation of the economy to make anti-inflationary measures more effective and reduce the destabilizing impact of shocks. Also, public wages will be adjusted in the future at rates below those of past inflation, effectively reducing real wages. The authorities have also issued guidelines for private sector wage negotiations that aim at keeping increases in line with the projected sharply reduced rate of inflation. Since this is leading to labor unrest, the government's planned measures to democratize labor unions and decentralize private wage determination will figure significantly.

Development Issues and Constraints to Growth

Uruguay's policy makers continue to confront, apart from recurrent fiscal adjustment problems, issues of low private investment and savings; uncertain markets and instability of export earnings; volatility of capital flows; and high external debt service.

New investments are needed to expand capacity and modernize production, both in agriculture and manufacturing. Gross domestic private investment in 1989 was about 5.2 percent of GDP, extremely low for a country that needs a vast modernization of its productive capacity. Although past structural reforms have provided a useful macro policy framework, national savings at about 9.5 percent of GDP in 1989 are insufficient to carry the capacity expansion effort. National savings are constrained because net factor payments abroad which are absorbing about 30 percent of domestic savings (13.7 percent of GDP in 1989); annual population growth is slow and the dependency ratio is high; business rely on debt rather than equity. As a result, the agriculture sector operates below its capacity and some important branches of manufacturing are crippled by debt problems.

Montevideo's role as a financial center and the volatility of foreign deposits require large and liquid foreign exchange reserves, substantially above those required for import payments, to avoid the consequences of sharp fluctuations prompted by speculative movements in Argentina and Brazil. High interest rates are also required to maintain the attractiveness of the financial center to foreign depositors;

Uruguay's future growth depends on the expansion of exports, both as an engine of growth and as a source of foreign exchange to pay for imports and service the large external debt. In this context, heavy reliance on exports and tourism services supplied to Argentina and Brazil places Uruguay in a vulnerable position;

Inefficiencies in resource allocation associated with the level and composition of resources utilized by the public sector, which continues to employ about one-fourth of the labor force, as well as the need to reduce the chronic sources of fiscal pressures, particularly the high level of social security and welfare programs, and central bank quasi-fiscal losses; and

The service of the large public external debt, which, as noted above, absorbs a large share of the country's savings and severely constrains its ability to grow.

The Government's Program

The medium-term development program for 1986-90 embodied a consistent macroeconomic framework with important structural reforms in key policy areas. The new Administration continues the growth strategy of its predecessor which recognizes that prospects for sustained growth are closely linked to effective policies to promote export growth, given the small domestic market and the requirements of external debt service. The government's strategy and policy agenda continues to be oriented toward: (i) strengthening policies, incentives and specific programs that promote exports and increase investment and savings, including a floating and competitive exchange rate, further rationalization of tariff protection, a tax policy favoring exporting activities; freedom of capital markets, interest rates, and foreign exchange transactions, and the almost total absence of price controls; (ii) actions to reinvigorate the private sector and promote growth and diversification of agriculture and manufacturing; (iii) measures intended to slow down inflation and maintain fiscal and monetary discipline to achieve a long-term sustainable current account balance of payments, and a better balance in resource allocation between the public and private sectors; (iv) actions to modernize the public sector; (v) a public investment program oriented toward providing essential inputs and infrastructure for private sector activities; (vi) a strengthened domestic financial sector through improved supervision, and a restructuring of commercial banks in distress; and (vii) an improved legal framework regulating business and financial transactions.

External Financing

Uruguay's total external debt was about US$4.9 billion at end 1989, of which the outstanding debt to the Bank was US$238.7 million (market value) or 4.9 percent of the total. The Bank's share of debt service was 7.5 percent in 1989. The recovery of exports, combined with the MYRA, reduced the medium- and long-term public debt service ratio for 1989 to 39 percent of exports of goods and nonfactor services (30 percent excluding 6 percentage points of IMF repurchases and service charges and about 4 percentage points for interest on public short-term debts).

The government has approached its major creditor banks requesting debt relief under the Brady Plan, for which it claims the advantages of a highly concentrated group of commercial banks, a good record in service payments, and the lack of any recent concerted lending. Debt reduction would play a significant role in reducing Uruguay's external financial requirements and corresponding public sector financial needs, a prerequisite to badly needed new investments to sustain long-term GDP growth as well as a viable medium-term balance of payments. It also would reduce inflationary pressures and lower interest rates.

URUGUAY

Mid-1988 Population (mils.)	3
1988 Per Capita GNP in US$:	2,460

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.6	4.4	-0.4	0.4	1.5
Net Indirect Taxes	7.2	13.4	13.7	15.4	15.9	..	..	..	..	..	..
Agriculture	13.7	16.8	9.6	10.2	9.4	..	0.4	2.0	0.3	0.5	1.5
Industry	30.1	23.8	28.2	26.4	24.6	..	1.4	6.2	-1.8	-2.2	-2.0
(of which Manufacturing)	..	..	22.3	21.8	19.8	..	..	..	-0.5	-3.7	-2.1
Services	49.0	46.0	48.5	48.0	50.1	..	1.3	3.9	0.2	1.7	3.0
Resource Balance	7.0	1.2	-5.6	1.7	3.9	..	..	..	..	..	..
Exports of GNFS	19.0	13.8	15.0	19.9	22.1	..	-0.1	11.4	3.6	3.8	6.5
Imports of GNFS	12.0	12.6	20.6	18.2	18.2	..	9.0	7.6	-3.0	-2.3	4.5
Total Expenditures	93.0	98.8	105.6	98.3	96.1	..	3.8	4.1	-1.6	-0.8	1.0
Total Consumption	82.3	86.2	88.3	88.6	86.2	..	3.7	2.3	-0.4	-1.2	1.4
Private Consumption	67.6	72.0	75.8	76.0	73.3	..	4.0	2.0	-0.7	-1.5	3.0
General Government	14.7	14.2	12.5	12.5	13.0	..	1.9	4.3	1.1	0.4	-0.4
Gross Domestic Investment	10.7	12.6	17.3	9.7	9.8	..	4.0	17.4	-9.2	2.5	-12.5
Fixed Investment	10.7	8.9	16.7	9.1	9.5	..	3.2	18.4	-10.1	4.0	..
Changes in Stocks	..	3.6	0.6	0.6	0.3	..	..	..	..	..	..
Gross Domestic Saving	17.7	13.8	11.7	11.4	13.8	..	-2.7	13.2	0.0	20.6	9.4
Net Factor Income	-1.1	-0.9	-1.0	-3.6	-3.8	..	..	..	..	..	..
Net Current Transfers	0.0	0.0	0.0	0.0	0.0	..	..	..	..	..	..
Gross National Saving	16.6	12.9	10.8	7.8	9.9	..	-3.4	15.0	-3.6	41.0	..

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	1,056	1,319	1,803	1,754	1,760	1,787	2.6	4.4	-0.4	0.4	1.5
Capacity to Import	201	262	279	349	379	418	3.1	3.7	3.8	8.5	10.3
Terms of Trade Adjustment	54	129	-7	0	16	32	..	..	..	..	..
Gross Domestic Income	1,110	1,448	1,795	1,754	1,777	1,819	3.0	3.4	-0.4	1.3	2.4
Gross National Product	1,046	1,302	1,784	1,690	1,712	..	2.6	4.5	-0.8	1.3	..
Gross National Income	1,101	1,431	1,776	1,690	1,728	..	3.0	3.4	-0.8	2.2	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	5.4	34.7	61.1	100.0	162.2	306.9	54.3	60.5	55.1	62.2	89.2
Wholesale Prices (IFS 63)	4.8	36.6	61.3	100.0	157.4	284.4	53.5	58.6	59.3	57.4	80.7
Implicit GDP Deflator	5.1	34.4	59.4	100.0	162.2	..	51.6	58.3	57.0	62.2	..
Implicit Expenditures Defl.	5.1	35.4	59.7	100.0	160.5	..	51.1	59.8	57.0	60.5	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	0.6	0.3	0.5
Labor Force	..	..	..
Gross Natl. Income p.c.	2.3	3.1	-1.2
Private Consumption p.c.	3.3	1.7	-1.2
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	3.5	1.7	7.2
Marginal Savings Rates:			
Gross National Saving	-2.2	5.0	22.5
Gross Domestic Saving	-2.3	6.1	-105.6
ICOR (period averages):	..	3.1	-46.0

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	19.9	17.7	15.7	15.7
Industry	29.0	29.1	29.1	29.1
Services	51.1	53.2	55.1	55.1
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.MAN.TEXT	82.6	78.5	98.3	100.0	117.4	89.3	213	164	234	279	375	324
X.MAN.X	..	..	..	..	..	..	..	..	..	..	..	..
X.FOOD.MEAT	99.8	107.8	147.7	100.0	153.0	205.6	170	110	172	120	143	219
X.FOOD.FISH	60.6	78.8	86.7	100.0	65.9	71.7	48	47	65	79	55	64
Manufactures	88.7	66.5	75.4	100.0	106.0	112.3	325	281	245	335	384	433
Residual	97.4	113.9	113.9	100.0	102.0	124.1	303	252	272	371	445	556
Total Exports FOB	73.9	77.6	98.3	100.0	112.9	120.9	1,059	854	1,088	1,184	1,402	1,596
F. Merchandise Imports												
Food	270.3	54.1	67.6	100.0	84.6	83.2	59	22	23	31	31	29
Fuel and energy	165.0	87.5	125.4	100.0	115.7	125.2	455	224	158	167	155	198
Other Consumer Goods	74.5	35.0	62.5	100.0	115.9	118.3	119	39	59	100	124	125
Other Intermed. Goods	164.2	90.3	103.4	100.0	90.6	88.7	772	358	528	690	686	717
Capital goods	233.6	60.7	70.1	100.0	111.7	95.6	312	65	102	154	182	155
Total Imports CIF	127.4	61.1	82.8	100.0	100.9	102.9	1,727	708	870	1,142	1,177	1,223

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	121.4	92.8	93.4	100.0	104.9	111.4
Merch. Imports Price Index	125.8	107.8	92.1	100.0	102.3	104.2
Merch. Terms of Trade	96.5	86.1	101.5	100.0	102.5	107.0

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,526	1,253	1,500	1,547	1,763	1,967
Merchandise (FOB)	1,059	854	1,088	1,182	1,404	1,596
Non-Factor Services	468	399	412	365	358	376
Imports of Goods & NFS	2,144	1,033	1,180	1,405	1,444	1,531
Merchandise (FOB)	1,668	675	815	1,080	1,112	1,150
Non-Factor Services	476	357	365	325	332	381
Resource Balance	-618	220	320	142	318	436
Net Factor Income	-100	-351	-278	-281	-306	-352
(interest per DRS)	121	292	255	273	257	298
Net Current Transfers	2	0	0	0	0	0
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-716	-131	42	-139	13	84
Net Official Transfers	7	11	25	8	21	8
Curr. A/C Bal. after Off. Transf.	-709	-120	67	-131	34	92
Long-Term Capital Inflow	404	60	137	70	-25	18
Direct Investment	289	-8	-5	-5	-2	1
Net LT Loans (DRS data)	226	27	102	237	-30	-12
Other LT Inflow (Net)	-111	41	40	-162	7	29
Total Other Items (net)	423	127	83	139	-5	-13
Net Short Term Capital	334	-134	-156	209	204	24
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	90	261	239	-70	-210	-37
Changes in Net Reserves	-118	-66	-287	-78	-4	-97
Net Credit from the IMF	..	128	45	-3	-83	-99
Other Reserves Changes	-118	-194	-333	-75	79	2
As Share of GDP:						
Resource Balance	-6.1	4.2	5.0	1.8	4.0	..
Interest Payments	1.2	5.6	3.9	3.5	3.2	..
Current Account Balance	-7.1	-2.5	0.6	-1.8	0.2	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	384	174	482	530	532	501
Reserves incl. Gold (mil. US$)	2,401	1,031	1,500	1,793	1,602	1,548
Official X-Rate (LCUs/US$)	9.10	101.43	151.99	226.67	359.44	605.62
Index Real Eff. X-R Base 1980	100.00	66.87	65.87	64.21	60.50	63.16
GDP (millions of current US$)	10,133	5,207	6,455	7,738	7,944	..

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	20.9	14.5	15.3	15.4	16.0	14.6	..	95.2	80.8	68.6	65.0
Current Expenditures	18.3	15.8	15.0	14.9	15.9	15.7	..	75.5	78.5	73.2	78.3
Current Budget Balance	2.6	-1.3	0.3	0.5	0.1	-1.1	..	..	..	..	..
Capital Receipts	..	..	..	..	..		..	..	..	..	..
Capital Expenditures	2.2	1.5	1.5	1.8	2.0	2.2	..	84.2	115.6	83.2	91.0
Adjustments	..	..	..	..	..		..	..	..	..	..
Overall Deficit	0.4	-2.8	-1.2	-1.3	-1.9	-3.3	..	..	..	..	..
Official Capital Grants	..	..	..	..	..		..	..	..	..	..
External Borrowing (net)	0.2	-0.4	-0.2	0.1	0.1	0.1	..	2.7	-153.2	64.8	70.0
Domestic Non-Bank Financing	..	3.0	2.1	1.9	3.2	3.8	..	31.1	62.9	170.4	..
Domestic Bank Financing	0.2	0.1	-0.8	-0.7	-1.4	-0.6	..	-1108.1	75.7	204.4	138.7

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	200	244	307	205	-55	5	1,388	3,316	3,623	3,828	3,773	3,778
Official Creditors	36	56	73	151	13	54	333	441	514	665	678	732
Multilateral	15	66	105	156	16	60	182	305	410	566	582	642
of which IBRD	-2	37	59	90	-3	42	72	152	211	301	298	340
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	21	-10	-32	-5	-3	-6	151	136	104	99	96	90
Private Creditors	163	188	234	54	-68	-49	1,055	2,875	3,109	3,163	3,095	3,046
Suppliers	-2	-2	-5	1	-5	7	30	21	16	17	12	19
Financial Markets	164	114	148	52	-152	-99	765	2,234	2,382	2,434	2,282	2,183
Private Non-guaranteed	26	-48	-2	122	3	33	211	327	325	447	450	483
Total LT	226	196	305	327	-52	38	1,609	3,643	3,948	4,275	4,223	4,261
IMF Credit	0	128	151	-60	-144	-99	0	350	501	441	297	198
Net Short-Term Capital	116	110	63	164	174	46	2	511	574	738	912	958
Total incl. IMF & Net ST	342	434	519	431	-22	-15	1,611	4,504	5,023	5,454	5,442	5,417

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	4.50	4.20	5.30	7.00	7.10	8.00
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	4.40	4.20	5.30	7.00	7.10	8.00
Share of LT Debt Service						
1. IBRD as % of Total	5.18	6.20	5.00	8.70	9.20	7.10
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	5.18	6.20	10.20	8.70	9.20	7.10
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	101.10	273.90	248.00	258.60	225.10	194.30
2. IMF Credit/Exports	0.00	26.30	31.50	26.70	15.90	9.00
3. Short-Term Debt/Exports	0.10	38.40	36.10	44.60	48.60	43.70
4. LT+IMF+ST DOD/Exports	101.10	338.60	315.60	329.90	289.50	247.00
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	15.90	70.00	61.20	55.20	38.26	..
2. IMF Credit/GDP	0.00	6.70	7.80	5.70	3.89	..
3. Short-Term Debt/GDP	0.00	9.80	8.90	9.50	6.00	..
4. LT+IMF+ST DOD/GDP	15.90	86.50	77.80	70.50	48.16	..
Debt Service /Exports						
1. Public & Guaranteed LT	12.39	30.40	23.00	28.70	31.30	29.70
2. Private Non-guaranteed LT	3.37	5.90	2.30	2.20	2.40	2.10
3. Total Long-Term Debt Service	15.76	36.30	25.30	30.90	33.70	31.80
4. IMF Repurchases+Serv. Chgs.		2.30	5.20	7.20	9.00	5.70
5. Interest only on ST Debt	3.01	4.10	1.70	1.20	3.30	3.60
6. Total (LT+IMF+ST Int.)	18.77	42.60	32.20	39.30	46.00	41.10

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Vanuatu

The Republic of Vanuatu has a population estimated at 147,000 in 1988 with a per capita income of approximately US$840. The country has a total land area of about 12,190 sq km spread over 80 islands in the southwest Pacific Ocean. From 1906 to 1980, Vanuatu was an Anglo-French condominium, an arrangement involving three separate administrations—British, French and joint. Since the country became independent in July 1980, the government has been promoting the unification of this tripartite administration. "Localization" is the objective, but the country will continue to rely heavily on expatriate staff for some time to come.

The economy of Vanuatu is highly dualistic. The traditional sector encompasses about 80 percent of the population, mostly engaged in subsistence farming of root crops and tropical fruits. Since land is fertile and relatively abundant (about 70 percent of arable land is not cultivated), dire poverty is virtually nonexistent although living standards are, in remote areas, moderate to low. Copra has been the main cash crop, but many villagers collect coconuts in quantity only to meet their limited cash needs. There is a small but growing number of smallholders producing copra on a commercial scale or vegetables for urban consumers. Coffee and cocoa are also grown as cash crops. The modern sector, which depends extensively on expatriates for technical and managerial skills, is highly service-oriented, consisting mainly of government services, tourism, and the International Finance Center (for offshore banking, tax haven activities, and shipping registry), together with some small industries (such as fish and meat processing, tanning and wood processing), plantation agriculture, and a livestock ranch. The public sector employs about 4,300 persons or one third of the workforce in the modern sector. Tourist arrivals reached 27,000 in 1983, but since then have declined substantially to under 15,000 in 1987 before recovering modestly in 1988 and more strongly in 1989. The tourism industry employs about 900 persons. The Finance Center grew rapidly in the 1970s but then stabilized. There are over 1,100 companies registered in Vanuatu; off-shore bank accounts hold about US$2 billion. The Finance Center provides about 200 local jobs.

More broadly-based economic growth in Vanuatu is most immediately constrained by the low level of basic education (the literacy rate was 13 percent as recently as 1979) and a severe national shortage of management and technical skills. While some segments of agriculture, fisheries, and agro-industries seem to have much growth potential, the shortage of human capital is hindering the process of necessary technology transfer. Development of commercial agriculture is also handicapped by the land tenure system and disputes arising from the new constitution which prohibited foreign ownership of land and returned all of it to ni-Vanuatu (the people of Vanuatu). The once prosperous plantation agriculture (mostly copra) has been allowed to decay, as former foreign owners are unwilling to reinvest in their plantations. Efforts to revive this sector are now underway. Tourism, which holds promise of further development, is in part constrained by limitations and alterations in air services to Vanuatu and the difficulties of promoting a relatively small tourist industry in major source markets. In addition, Vanuatu's economy is handicapped by its vulnerability to cyclones that periodically cause severe damage to copra production and basic infrastructure, and disrupt tourism.

Vanuatu's balance of payments exhibits the vulnerability and the structural weaknesses of the economy. The country exports mostly primary commodities, and copra alone usually accounts for over 70 percent of domestic export earnings, at variable international prices. The country imports a wide range of foods, intermediate goods, fuel, and manufactured goods. The merchandise trade balance has been in chronic deficit, ranging since 1985 from 28-36 percent of GDP. The service trade has been more or less in balance, with tourism accounting largely for the receipts, and salaries to expatriates accounting for a large part of the payments.

The operations of the public sector were characterized in 1981-85 by a heavy, though decreasing, dependence on foreign grants from France, the United Kingdom and Australia, among others. In response to a 32 percent decline in overall grants during 1981-85, the government strengthened the domestic revenue base by instituting a number of new tax measures, mostly related to trade and tourism. As a result, the percentage of total expenditures financed by domestic revenues was raised from 29 percent in 1981 to 50 percent in 1985, and has since increased. Nearly all recurrent expenditures are now covered by domestic resources. While direct grants for recurrent expenditures have now ceased, foreign assistance for development expenditures, including credits with high grant elements, and for technical assistance has been increasing.

Developments in the 1980s

Economic and political disturbances associated with Independence resulted in a 10 percent contraction of GDP during 1980 but thereafter the economy recovered and real GDP growth averaged 6 percent annually in 1981-85. Despite population growth exceeding 3 percent, per capita incomes also benefited.

Subsequent developments were far less propitious. Severe cyclones early in 1985 caused damage to economic infrastructure over a wide area. The output of copra fell by 20 percent as a result of cyclone damage. Tourism was also affected by external developments, especially in Australia; there was a 28 percent reduction in tourist arrivals in 1985. With these setbacks in the two leading sectors of the economy, real GDP stagnated, growing by 1 percent. A small current account surplus (including transfers) was secured; the fiscal deficit was about 1 percent of GDP. During 1986, external economic conditions continued to deteriorate. While copra production began to recover, export prices plummeted by over 50 percent and receipts were only 30 percent of the 1985 level. Exports of beef declined as key markets were lost in New Caledonia and the Netherlands Antilles. The combined effect was a 50 percent drop in export earnings during 1986. Air transport problems were largely responsible for a further decline of 28 percent in tourist numbers. The government devalued its currency, the vatu, twice during 1986 vis-a-vis the SDR to which it was then pegged: by 9.8 percent in February and by 14.1 percent in October. An expansion of public sector programs moderated the decline in other economic activity; altogether real GDP is estimated to have fallen by about 2 percent.

Reflecting these trends, the current account balance turned negative in 1986, at about 2 percent of GDP after transfers. The trade deficit approached 30 percent of GDP. The slowdown in the economy also produced a growing imbalance in the fiscal accounts. From 1985 the country's fiscal position had worsened as a result of increasing recurrent expenditures without a commensurate increase in revenues; in 1986 and 1987, the overall deficit, even with external support, averaged about 7 percent of GDP compared to 1 percent of GDP in 1985. The government instituted a number of expenditure-reducing measures and increased import duties in order to reduce future recurrent deficits.

In February 1987 Vanuatu was again struck by a major cyclone which inflicted major damage particularly to economic and social infrastructure in and around the capital, Port Vila. The total damage was estimated at about US$40 million (equivalent to over 30 percent of GDP). Fortunately, the areas affected produced a relatively small proportion of the country's agricultural output, so that the cyclone did not have a major effect upon the productive base of the economy. In fact, the current account strengthened, with higher export earnings, and with increased imports being offset by substantially larger official transfers. External prospects also improved with the signing of fishing agreements with both the United States and the USSR, and some recovery in tourism. However, the cyclone worsened the government's fiscal position, as expenditures increased to meet emergency needs.

In 1988, there were indications of an improvement in the economy, as a result of more favorable external developments and reconstruction efforts. With a fall in reconstruction-linked imports and recovery in copra exports, the external current account deficit (excluding transfers) decreased. Despite some political uncertainties, the economic situation continued to improve with tourism, in particular, making a comeback on the basis of more reliable air services. The government's fiscal position still gives cause for concern, although there has been a strengthening of revenue collections and expenditure control by the government: it is also considering measures to broaden the tax base. Fiscal adjustment continues to be the primary requirement for improved stability and better prospects for growth.

Events in 1989 appeared to have been more favorable. Political unrest subsided by mid-year. Also, there was donor funding for the lease of an aircraft for Air Vanuatu and a promotional campaign to promote Vanuatu as a tourist destination in Australia. These events led to a substantial recovery in tourism, and an upturn in activities associated with the Finance Center. Furthermore, steady copra prices and a rebound in the beef industry contributed to the first significant growth in the agriculture sector since the early 1980s.

Consequent upon the measures to restore fiscal stability and the recent favorable developments in the real sector, the economy has a brighter outlook entering the 1990s. Record production of copra and cocoa is expected. Copra crop is expected to reach 50,000 tonnes in 1990, up from an estimated 40-45,000 tonnes in 1989, earning US$7.5 million in export revenue. Earnings from cocoa exports are estimated to be US$1.5 million with volume holding steady at the 1989 level (1,000 tonnes).

The tourism industry is also on the rise. After three years of relatively repressed tourism and some political uncertainty, an estimated 24,000 tourists, mostly from Australia and New Zealand, are expected to fly into the country this year, returning tourism to the 1985 level. This is potentially a very important development for Vanuatu.

External Debt

The government has thus far avoided accumulating large foreign debt by basically spending only within the limits of revenues and foreign grant assistance. Public and publicly guaranteed external debt amounted to only 4.3 percent of GDP in 1984 and 11.0 percent in 1988. This will rise further with disbursements of new development loans but most borrowing is on highly concessional terms and the public debt service ratio, at only 1.8 percent of exports of goods and services in 1988, is likely to remain low.

Development Issues and Future Prospects

The smallness of Vanuatu, the vast distances that separate it from some of its major markets, inter-island transport difficulties, and the lack of a professional or skilled work force present formidable obstacles to economic growth. Land tenure issues are also constraining the expansion of the commercial agriculture sector. Political tensions surfaced in May 1988 in the form of civil disturbance in Port Vila, the capital, and the subsequent constitutional problems have yet to be fully resolved. This makes more difficult the task of generating the new development activities the country needs. However, it is endowed with a relatively abundant supply of exceptionally fertile agricultural land and sizeable fisheries and forest resources. The tourism potential remains large. These are the areas being addressed in the Second National Development Plan for the period 1987-91. The government is also currently finalizing an Investment Act, first formulated in 1986, with a view to establishing a set of incentives for potential investors. This could have a major impact upon activities in tourism and the Finance Center.

The cyclone reconstruction program has dominated the short-term economic and developmental agenda. A donors' conference held in Port Vila in June 1987 identified funding for a majority of the projects in the reconstruction program. The government remained committed to undertaking the National Development Plan, concurrently with the reconstruction program, and has secured substantial external support for projects specified in this plan. Development expenditures amounting to US$164 million are planned in 1989-91, equivalent to perhaps 40 percent of GDP in this period, but depend almost entirely on the availability of external support of which nearly 40 percent would be for technical assistance and training. A first UNDP Round Table Meeting on Vanuatu was held in October 1988. It was recognized at that time that progress in both reconstruction and development was vital to the full realization of Vanuatu's economic potential. However, given the limited skilled work force and paucity of administrative experience, the two initiatives must be balanced judiciously in order that the country's implementation capacity not be spread too thinly.

Vanuatu is still adjusting to the withdrawal of budgetary support from France and the United Kingdom. Continued efforts are needed to mobilize domestic resources and contain recurrent expenditure growth, especially in the form of salary increases. In the area of human resource development, special attention is being given to unifying the dual educational system and replacing expatriate professionals with ni-Vanuatu. Education takes up 25 percent of the recurrent government expenditures and merits particularly careful and efficient planning to balance the need for general, basic education with that of technical and professional training. As the first substantial group of graduates began to return from overseas training two years ago, the government is expecting to "localize" a significant part of public services over the next five years.

VANUATU

Mid-1988 Population (000)	147
1988 Per Capita GNP in US$:	840

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	3.6	3.0	..
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	..
Agriculture	..	..	18.9	..	..	..	..	..	..	..	..
Industry	..	..	16.2	..	..	..	..	..	..	..	..
(of which Manufacturing)	..	..	4.2	..	..	..	..	..	..	..	..
Services	..	..	64.9	..	..	..	..	..	..	..	..
Resource Balance	..	..	-8.6	-29.5	-21.9	..	..	..	..	..	..
Exports of GNFS /1	..	..	33.2	39.1	46.3	..	..	..	..	..	..
Imports of GNFS	..	..	41.8	68.6	68.2	..	..	..	..	..	..
Total Expenditures	..	..	..	129.5	121.9	..	..	..	..	..	..
Total Consumption	..	..	..	97.7	90.2	..	..	..	..	..	..
Private Consumption	..	..	..	63.1	51.4	..	..	..	..	..	..
General Government	..	..	27.0	34.6	38.8	..	..	..	..	..	..
Gross Domestic Investment	..	..	..	34.4	31.7	..	..	..	..	..	..
Fixed Investment	..	..	..	32.0	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	2.4	..	..	..	..	..	..	..
Gross Domestic Saving	..	..	..	4.9	9.8	..	..	..	..	..	..
Net Factor Income	..	..	-15.5	-6.6	-6.2	..	..	..	..	..	..
Net Current Transfers	..	..	0.0	4.8	7.0	..	..	..	..	..	..
Gross National Saving	..	..	..	3.2	10.6	..	..	..	..	..	..
In millions of Vatu (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	..	10,122	13,143	13,538	..	..	..	3.6	3.0	..
Capacity to Import	..	..	..	5,142	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	0	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	13,143	..	..	..	..	..	..	..
Gross National Product	..	..	..	12,278	12,700	..	..	..	0.9	3.4	..
Gross National Income	..	..	..	12,278	..	..	..	..	..	..	..

	(1987 = 100)						Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64) /2	56.7	83.1	87.1	100.0	..	..	..	6.5	6.4	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	76.5	94.1	93.0	100.0	108.0	..	..	..	4.0	8.0	..
Implicit Expenditures Defl.	..	84.2	92.2	100.0	..	..	..	..	..	..	..

D. Other Indicators: Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.4	3.8	3.2
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp) /3	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	..	..	..
ICOR (period averages) /4	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	..	..	..	..
Industry	..	..	..	..
Services	..	..	..	..
Total	100.0	100.0	100.0	100.0

1/ Goods and nonfactor services.
2/ Denotes the line number in the country pages of the International Financial Statistics, IMF.
3/ At market prices.
4/ Incremental capital-output ratio.
e/ Estimated data.

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.FOOD.COPRA	87.4	120.6	132.8	100.0	135.8	..	9	13	4	7	8	..
X.BEV.COCOA	58.0	65.6	96.3	100.0	104.6	..	1	1	2	2	2	..
X.FOOD.MEAT	42.6	132.0	56.2	100.0	100.2	..	1	2	1	2	2	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	15	7	6	14	..
Total Exports FOB	..	..	..	..	..	..	..	31	14	17	25	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	15	14	12	11	..	..
Fuel and energy	..	..	..	..	..	..	7	6	5	6	..	..
Other Consumer Goods	..	..	..	..	..	..	2	14	11	20	..	..
Other Intermed. Goods	..	..	..	..	..	..	9	11	13	14	..	..
Capital goods	..	..	..	..	..	..	10	14	14	18	..	..
Total Imports CIF	..	..	..	..	..	..	73	71	58	68	..	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	..	57	39	50	55	..
Merchandise (FOB)	..	19	9	14	15	..
Non-Factor Services	..	38	30	36	40	..
Imports of Goods & NFS	..	85	75	85	89	..
Merchandise (FOB)	..	52	47	57	58	..
Non-Factor Services	..	33	29	28	31	..
Resource Balance	..	-28	-36	-35	-33	..
Net Factor Income	..	-1	5	-8	-4	..
(interest per DRS) /5	0	0	0	0	1	1
Net Current Transfers	0	7	7	6	10	..
(workers' remittances)	0	7	7	7	7	..
Curr. A/C Bal. before Off. Transf.	..	-23	-24	-38	-28	..
Net Official Transfers	..	24	21	46	36	..
Curr. A/C Bal. after Off. Transf.	..	1	-3	8	8	..
Long-Term Capital Inflow	..	-44	14	0	-205	..
Direct Investment	..	5	2	13	11	..
Net LT Loans (DRS data)	0	1	1	4	2	5
Other LT Inflow (Net)	..	-50	11	-17	-218	..
Total Other Items (net)	..	43	-6	5	197	..
Net Short Term Capital	..	45	-1	21	215	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	..	-2	-5	-15	-18	..
Changes in Net Reserves	..	0	-5	-13	-1	..
Net Credit from the IMF	..	..	..	..	..	..
Other Reserves Changes	..	0	-5	-13	-1	..
As Share of GDP:						
Resource Balance	..	-24.1	-31.4	-29.6	-23.9	..
Interest Payments	0.2	0.1	0.3	0.3	0.4	..
Current Account Balance	..	-19.1	-21.0	-31.5	-20.1	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	..	11	21	40	41	35
Reserves incl. Gold (mil. US$)	0	11	21	40	41	35
Official X-Rate (Vatu/US$)	68.29	106.03	106.08	109.85	104.43	116.04
Index Real Eff. X-R Base 1980	100.00	105.81	94.35	91.62	95.47	91.83
GDP (millions of current US$)	113	118	115	120	140	..

Notes:

5/ The Bank's Debtor Reporting Service.
e/ Estimated data.

I. Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	23.7	24.0	27.7	25.4	..	..	-1.7	24.9	1.9	6.3
Current Expenditures	..	36.3	39.5	37.4	..	..	..	7.6	4.9	-6.3	10.9
Current Budget Balance	..	-12.6	-15.5	-9.7	..	..	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	10.1	10.3	19.6	..	..	..	-1.4	105.4	-10.1	-28.9
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-22.7	-25.8	-29.3	..	..	..	..	..	..	..
Official Capital Grants	..	21.9	19.3	21.8	..	..	..	-14.5	22.0	29.8	-18.5
External Borrowing (net)	..	0.7	0.7	2.6	..	..	..	..	..	..	..
Domestic Non-Bank Financing	..	1.1	1.2	-0.1	..	..	..	..	..	..	..
Domestic Bank Financing	..	-1.0	4.6	5.0	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	0	1	1	4	2	5	4	7	8	14	15	19
Official Creditors	0	1	1	4	2	5	4	5	7	13	14	17
Multilateral	0	1	1	3	1	4	0	2	3	6	7	8
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	0	0	0	1	0	1	0	0	1	2	2	3
Bilateral	0	0	0	1	1	1	4	4	4	7	7	9
Private Creditors	0	0	0	0	0	0	0	2	2	1	1	2
Suppliers	0	0	0	0	0	0	0	0	0	0	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	0	1	1	4	2	5	4	7	8	14	15	19
IMF Credit	0	0	0	0	0	0	0	0	0	0	0	0
Net Short-Term Capital	..	45	-1	21	215	..	0	9	10	10	12	10
Total incl. IMF & Net ST	..	46	0	25	217	..	4	16	18	24	27	28

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD /6						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	2.86	6.02	10.64	11.69	15.59
3. IBRD+IDA as % of Total	0.00	2.86	6.02	10.64	11.69	15.59
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	..	7.75	9.56	16.07	17.98	..
2. IMF Credit/Exports	..	0.00	0.00	0.00	0.00	..
3. Short-Term Debt/Exports	..	9.97	11.51	11.40	13.42	..
4. LT+IMF+ST DOD/Exports	..	17.72	21.07	27.46	31.40	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	3.61	5.92	7.25	11.78	11.00	..
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	0.00	..
3. Short-Term Debt/GDP	0.00	7.61	8.73	8.36	8.21	..
4. LT+IMF+ST DOD/GDP	3.61	13.54	15.98	20.14	19.21	..
Debt Service /Exports						
1. Public & Guaranteed LT	..	0.55	1.15	1.48	1.75	..
2. Private Non-guaranteed LT	..	0.00	0.00	0.00	0.00	..
3. Total Long-Term Debt Service	..	0.55	1.15	1.48	1.75	..
4. IMF Repurchases+Serv. Chgs.	..					..
5. Interest only on ST Debt	..	0.89	0.69	0.91	1.28	..
6. Total (LT+IMF+ST Int.)	..	1.44	1.84	2.39	3.04	..

Notes:

6/ Debt outstanding and disbursed.
e/ Estimated data.

Venezuela

Since assuming office on February 2, 1989, the new government of Carlos Andrés Pérez has been formulating a fundamentally new economic policy to resolve the acute economic crisis confronting the nation. For the past 20 years, Venezuela had failed to invest its bountiful natural resources and windfall oil profits into adequate growth of productive assets or output. The reasons for this disappointing performance were fourfold. First, Venezuela lacked a coherent and viable long-term development approach and strategy. Second, Venezuela remained dependent on petroleum which, until the 1986 collapse in prices, provided 95 percent of its export earnings. Third, Venezuela failed to address the problems of poverty effectively in its development efforts. Social indicators in Venezuela are poor for a nation at its level of per capita income (US$3,130 in 1988); recent estimates suggest that 15-20 percent of Venezuelans live under a commonly accepted line of absolute poverty. Fourth, despite numerous efforts, Venezuela's public institutions and public administration are weak and do not provide the basis needed for modernization of government operations to support a sustainable medium-term economic development strategy.

The basic structural weaknesses in Venezuela's economy have their origins in policies pursued over past decades. With the largesse of the financial resources and foreign exchange provided by petroleum, relatively high growth rates of real GDP were achieved from 1950 to 1973. By the early 1970s, Venezuela's GDP per capita exceeded US$1,100, the highest in Latin America. The 1970s also saw the beginnings of major efforts by the government to promote industrial development, focused on steel, aluminum and petrochemicals. Between 1950 and 1975, the agricultural sector also grew rapidly. But in the mid-1970s, production of tradable goods succumbed to the high, oil-based, exchange rate and to the inward-orientation of government policies.

Starting with the 1974 oil price boom, Venezuela has been unable to balance moderate growth with a sustainable balance of payments and/or moderate inflation. The policies followed since then have led to wide variations in performance, and ineffectiveness in addressing the economy's basic structural problems. From 1973 to 1977, investment grew rapidly (16.8 percent a year for private fixed investment, 18.1 percent a year for public fixed investment), as the nation exploited the resources made possible by the 1973-74 rise in oil prices. GDP growth was also rapid (6.8 percent a year). However, with growth led by an expansion in demand, there was steady deterioration in the trade and current account balance, with a shift in the trade balance from a surplus of US$6.6 billion in 1974 to a deficit of US$5.2 billion in 1978.

Facing an unsustainable balance of payments in 1978-79, the government cut back sharply on investment and undertook other contractionary policies, which put the economy in a prolonged slump. From 1978 to 1985, per capita GDP *fell* in each and every year and by a cumulative total of 24.6 percent. The 1978-85 decline was, however, accompanied by large positive external trade balances, capped by current account surpluses of US$4.3 billion a year on average in 1983-85. Inflation was moderate; the CPI grew at a modest 10.2 percent annually from 1982 to 1986.

Between 1986 and 1988, policy turned once more to stimulation and in response there was a moderate rate of growth, but this growth was accompanied by a sharp deterioration in the balance of payments and by soaring inflation. Public investment rose from 7.7 percent of GDP in 1985 to 12.0 percent in 1986. The economy did respond with GDP growing by 6.8 percent, but inflation started to accelerate in the second half of the year. This pattern continued in 1987-88. Public fixed investment stabilized around 11.5-12.5 percent of GDP and growth continued at a moderate rate, with GDP growing by 3.0 percent in 1987 and 6.2 percent in 1988. The overall fiscal balance, however, remained in deficit (3.4 percent of GDP in 1987, 6.9 percent in 1988), as did the external current account (US$1.1 billion or 2.4 percent of GDP in 1987, and US$4.5 billion or 7.5 percent of GDP in 1988).

By the end of 1988, Venezuela's economic situation had become untenable: inflation was accelerating, operating reserves were depleted, imports were growing fast as it was clear to all that the new government would have to effect a major devaluation. By January 1989, there were substantial shortages of staples in the markets, such as bread, coffee, sugar, and rice. In late February, in a climate of great uncertainty, serious riots and widespread looting of shops broke out; more than 300 people died. The immediate spark was a doubling of gasoline prices and the unexpected response of some bus drivers who doubled their fares and suspended student discounts. However, the causes were plainly much deeper, as the shortages and uncertainty had set up an explosive situation.

Policies of the Pérez Government and Recent Economic Developments

After taking office on February 1989, the new government set out to redefine the role of the state through a major economic reform and restructuring program. The essential aim is to encourage private sector activity and investment, by reducing the elaborate regulatory framework and the complex, costly subsidies which pervade the economy. In addition, the reforms will improve the effectiveness of the government's social programs, both to serve long-term goals and to cushion the social impact that inevitably accompanies far-reaching policy changes.

The government announced the outline of its program in February 1989 and has proceeded to carry it out with successive policy decisions and implementation measures. The program has a time horizon of five years and comprises four basic elements.

Exchange Rate System and Trade Reform. As of March 14, 1989, Venezuela moved to a unified, market-determined exchange rate system for the Bolivar, and exchange controls were abolished. The government also launched a comprehensive trade reform. The first phase of the reform eliminated import duty exonerations, reduced maximum tariff rates to 80 percent, and simplified the tariff schedule. Simultaneously, quantitative restrictions are being phased out and their coverage declined to 17 percent of manufacturing output from 49 percent. The second phase, effective May 1, 1990, reduced the maximum tariff to 50 percent and further reduced QRs. The final objective is to reduce tariffs rates to 10-20 percent from the current 50 percent maximum rate, and QR coverage to 5 percent of manufacturing output.

Fiscal Policy Reform. The fiscal deficit was significantly reduced from 8 percent of GDP in 1988 to less than 2 percent in 1989. This was achieved by moving toward a rational pricing system for the government-supplied goods and services, and by controlling spending. The gains to the public sector from the effect of the real devaluation on the domestic currency equivalent of oil revenues also contributed to the improvement in the fiscal position. Over the medium term, the deficit will be reduced further as a result of the full elimination of subsidies corresponding to past exchange rate guarantees, further increases in the prices of publicly produced goods and services, and the introduction of a value added tax.

Financial Sector Reform. Prior to February 1989, the ceiling on general commercial bank lending was 13 percent. Since that time general commercial interest rates have been market-determined within floors and ceilings. The average lending rate soon moved to 42 percent in early 1989 and peaked at 45 percent in December; by mid-March 1990 it had declined to 35 percent with inflation currently running at about 30 percent per year. In April 1990, the central bank set the ceiling and floor rates at 60 percent and 10 percent, respectively, so as to effectively remove interference in the market determination of interest rates. The government is now strengthening the regulatory and supervision system, and privatizing several government-held banks as part of a financial sector reform program.

Social Sector Plan. The government decided to move away from indirect subsidy programs, which benefit the rich, to a system of direct, targeted social programs instead. It has therefore eliminated all indirect general food subsidies, except for milk. The savings from cutting indirect subsidies will be shifted to direct programs such as the school-based income transfer program that became effective in September 1989.

The economic program initiated in February 1989 succeeded in correcting major internal and external imbalances in less than a year, although at the cost of a steep recession. On the internal side, the overall deficit of the consolidated, non-financial public sector declined from 8 percent of GDP in 1988 to less than 2 percent in 1989. Performance on the external side was also strong: the current account balance shifted from a deficit of 7.5 percent of GDP in 1988 to an estimated surplus of 4.6 percent of GDP in 1989. This surplus was the result of a 20 percent increase in oil export earnings due to strong oil prices, a surge of over 30 percent in non-oil exports, and a 37 percent decline in imports, due to both the devaluation of the Bolivar and a sharp decline in non-oil GDP of 9.3 percent. This current account outcome, helped by significant capital repatriation in recent months, made it possible to begin to rebuild international reserves from the uncomfortably low levels of end-1988.

These significant improvements on both public finances and the balance of payments, together with a tight monetary policy, have led to a rapid stabilization of inflation and exchange rates. Domestic inflation initially accelerated from an annual rate of 36 percent in 1988 to an annual rate of 150 percent during the first half of 1989, due to the devaluation and increases in government-controlled prices. However, the annual inflation rate in the second half of 1989 fell to only 32 percent. In a similar pattern, the Bolivar continued to depreciate slightly following the sharp devaluation in March 1989 from about 36 Bolivars per U.S. dollar to about 43 Bolivars per U.S. dollar in October 1989; but since that time, it has remained stable in the range of 42 to 46 Bolivars per U.S. dollar.

The short-run cost of correcting these imbalances has been high. In 1989, total GDP decline by 8.1 percent, and non-oil GDP, by 9.3 percent. This sharper-than-expected decline reflected: (a) overshooting the fiscal target of a 4 percent deficit, due in part to delays in recognizing exchange losses arising from the earlier multiple exchange rate system and in legislative approval of the public investment program; (b) a sharp reduction in inventories, which had been built up in 1988 in anticipation of devaluation and decontrol of prices; and (c) the sluggish response of private sector investment to new policy conditions.

An important element in the government's program is management of the external debt, which entailed heavy net transfers to external creditors. In 1989, Venezuela paid an estimated US$3.4 billion in interest (of which US$2.5 billion was on long-term public debt), and US$1.6 billion in amortization. Venezuela's total external debt stood at about $32.2 billion at the end of 1989.

After prolonged negotiations, on March 20, 1990, the government and members of its Bank Advisory Committee announced agreement in principle on the basic terms of options to be offered to the banks holding about US$20 billion of Venezuela's external debt. The options to be offered to the creditor banks are: principal discount bonds and par bonds with below-market interest rates, which would have principal fully collateralized and interest payments partly collateralized; temporary interest reduction bonds, which would have partial collateralization of interest payments during the five years of below-market interest rates; cash buybacks at a fixed price which should take into account the secondary market price for existing debt; and debt conversion bonds, in proportion to purchases of new money bonds. As soon as the term sheets for these options are finalized, the creditor banks will be asked to indicate how much of their existing claims would be offered for buyback or exchange under these options. Once this final package is known, Venezuela would formally seek Bank and IMF support, as well as that of official bilateral sources, for this program of debt and debt service reduction.

Medium-Term Prospects

Looking to the medium to long term, Venezuela's development prospects are good. The country is rich in natural resources, well-endowed with land relative to its population, has a fairly well-developed infrastructure, and, despite comparatively high illiteracy, has a significant supply of well-educated citizens. The steps already taken toward economic reform are also promising. The macroeconomic framework for adjustment entails a comprehensive set of economic policy changes that are expected, if adhered to, to permit significant increase in the rate of GDP growth per capita, after the steep decline in 1989. The package of reforms should lay the foundation for sustained growth of production and exports, and as these grow, the relative burden of debt will decline and creditworthiness improve.

VENEZUELA

Mid-1988 Population (mils.)	19
1988 Per Capita GNP in US$:	3,230

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	3.7	3.3	0.9	6.2	-8.1
Net Indirect Taxes	4.0	3.1	2.7	3.6	3.2	3.2	..	..	..	..	..
Agriculture	5.5	5.3	4.8	6.3	6.2	6.9	4.5	3.4	3.8	4.6	-5.5
Industry	39.8	43.1	46.4	41.5	40.2	43.3	3.0	0.8	1.2	6.4	-8.7
(of which Manufacturing)	..	16.1	16.0	21.1	20.6	21.9	5.7	5.4	5.1	6.9	-9.5
Services	54.6	51.6	48.8	52.2	53.6	49.8	4.7	5.8	0.4	6.1	-7.8
Resource Balance	8.8	8.3	7.0	-1.9	-6.7	9.0	..	..	..	..	..
Exports of GNFS	25.8	25.1	28.8	21.4	20.7	33.3	..	-5.4	1.3	7.9	2.1
Imports of GNFS	17.0	16.8	21.8	23.4	27.3	24.2	..	8.3	0.8	19.0	-33.0
Total Expenditures	91.2	91.7	93.0	101.9	106.7	91.0	..	7.4	0.7	8.7	-16.5
Total Consumption	66.3	60.7	66.7	76.9	79.4	76.7	..	10.4	1.4	6.3	-6.8
Private Consumption	56.2	49.6	54.9	66.4	68.9	66.6	..	9.7	1.5	6.5	-6.0
General Government	10.1	11.1	11.8	10.5	10.5	10.2	..	4.6	1.5	11.0	-8.5
Gross Domestic Investment	24.9	31.0	26.4	25.0	27.2	14.3	..	4.5	-1.2	13.8	-45.8
Fixed Investment	19.4	24.9	24.9	21.8	22.9	17.3	7.8	8.9	-2.7	8.8	-19.0
Changes in Stocks	5.5	6.1	1.4	3.3	4.4	-3.1	..	..	..	..	..
Gross Domestic Saving	33.7	39.3	33.3	23.1	20.6	23.3	6.8	1.4	-5.2	-3.4	-5.0
Net Factor Income	-7.2	-3.4	0.5	0.6	0.0	-3.1	..	..	..	..	..
Net Current Transfers	0.0	-0.5	-0.6	-0.3	-0.2	-0.3	..	..	..	..	..
Gross National Saving	26.5	35.4	33.2	23.4	20.4	19.9	9.7	2.5	-5.5	-5.4	-19.4

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	413	553	655	679	721	663	3.7	3.3	0.9	6.2	-8.1
Capacity to Import	..	..	205	146	143	174	..	-1.3	-4.4	-2.0	21.7
Terms of Trade Adjustment	..	..	57	0	-15	13	..	..	..	..	..
Gross Domestic Income	..	..	712	679	707	676	..	4.5	-0.5	4.0	-4.3
Gross National Product	383	534	658	683	722	643	4.3	3.7	0.8	5.6	-10.9
Gross National Income	..	..	715	683	707	656	..	4.7	-0.6	3.5	-7.2

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	41.4	70.0	78.1	100.0	129.5	238.8	2.2	9.8	13.8	29.5	84.5
Wholesale Prices (IFS 63)	33.0	58.7	69.1	100.0	119.3	235.6	2.4	10.8	17.0	19.3	97.5
Implicit GDP Deflator	45.5	73.5	75.7	100.0	120.9	210.6	4.4	13.4	12.1	20.9	74.2
Implicit Expenditures Defl.	41.8	66.8	75.2	100.0	123.5	202.0	..	10.0	13.7	23.5	63.5

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.5	3.5	2.8
Labor Force	..	..	..
Gross Natl. Income p.c.	..	1.1	-3.3
Private Consumption p.c.	..	6.0	-1.3
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	2.6	0.9
Marginal Savings Rates:			
Gross National Saving	57.2	22.3	834.4
Gross Domestic Saving	56.0	12.1	1147.5
ICOR (period averages):	..	14.2	21.9

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	29.6	22.6	16.0	..
Industry	23.7	26.0	28.4	..
Services	46.7	51.4	55.6	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index (1986=100)						Value at Current Prices (millions US$)					
	1980	1985	1986	1987	1988	1989	1980	1985	1986	1987	1988	1989
X.FUEL	..	..	100.0	99.1	107.9	104.6	18,301	13,144	7,592	9,054	8,158	9,844
X.MET.AL	..	..	100.0	97.0	87.6	128.2	..	..	428	523	748	878
X.MET.FE	..	..	100.0	111.8	103.1	142.2	148	108	109	123	118	186
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	100.0	79.7	76.8	109.1	424	997	993	820	897	1,351
Residual	..	..	..	..	..	..	402	411		47	348	326
Total Exports FOB	..	..	100.0	97.5	106.9	110.2	19,275	14,660	9,122	10,567	10,269	12,585
F. Merchandise Imports												
Food	..	..	..	..	..	..	1,249	..	..	..	..	..
Fuel and energy	..	..	..	..	..	..	104	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	1,886	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	4,391	..	..	..	..	..
Capital goods	..	..	100.0	101.4	125.0	74.4	3,022	2,464	2,911	3,057	3,995	2,430
Total Imports CIF	..	..	100.0	108.4	132.2	80.9	10,652	7,304	7,862	8,832	11,414	7,138

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	100.0	117.8	105.7	124.1
Merch. Imports Price Index	..	..	100.0	103.6	109.8	112.2
Merch. Terms of Trade	..	..	100.0	113.7	96.3	110.6

H. Balance of Payments	US$ millions (at current prices)					
	1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	19,968	15,612	10,111	11,279	11,206	13,598
Merchandise (FOB)	19,051	14,660	9,122	10,567	10,269	12,585
Non-Factor Services	917	952	989	712	937	1,013
Imports of Goods & NFS	15,130	9,679	10,061	10,880	13,946	9,198
Merchandise (FOB)	10,877	7,530	7,862	8,832	11,414	7,138
Non-Factor Services	4,253	2,149	2,199	2,048	2,532	2,060
Resource Balance	4,838	5,933	50	399	-2,740	4,400
Net Factor Income	329	-2,137	-1,483	-1,374	-1,650	-2,374
(interest per DRS)	1,475	1,777	2,223	2,469	2,675	3,025
Net Current Transfers	-418	-102	-72	-128	-123	-137
(workers' remittances)	0	0	0	0	0	0
Curr. A/C Bal. before Off. Transf.	4,749	3,694	-1,505	-1,103	-4,513	1,889
Net Official Transfers	-21	-26	34	-22	-31	-29
Curr. A/C Bal. after Off. Transf.	4,728	3,668	-1,471	-1,125	-4,544	1,860
Long-Term Capital Inflow	2,060	-1,204	-1,400	-1,438	-88	1,147
Direct Investment	55	68	16	21	89	213
Net LT Loans (DRS data)	1,769	-664	-1,529	-1,604	-644	574
Other LT Inflow (Net)	236	-608	113	145	467	360
Total Other Items (net)	-3,025	-1,347	-1,014	1,440	-151	-1,820
Net Short Term Capital	-1,896	-997	1,695	2,277	938	-3,647
Capital Flows N.E.I.	0	0	-775	-866	-1,083	-1,090
Errors and Omissions	-1,129	-350	-1,934	29	-6	2,917
Changes in Net Reserves	-3,763	-1,117	3,885	1,123	4,783	-1,187
Net Credit from the IMF	..	0	0	0	0	998
Other Reserves Changes	-3,763	-1,117	3,885	1,123	4,783	-2,185
As Share of GDP:						
Resource Balance	7.0	9.9	0.1	0.9	-4.6	10.8
Interest Payments	2.1	3.0	3.7	5.3	4.4	7.4
Current Account Balance	6.8	6.2	-2.5	-2.4	-7.5	4.6
Memorandum Items:						
Reserves excl. Gold (mil. US$)	6,604	10,251	6,437	5,963	3,092	4,106
Reserves incl. Gold (mil. US$)	13,360	13,998	10,917	11,510	7,793	8,702
Official X-Rate (LCUs/US$)	4.29	7.50	8.08	14.50	14.50	34.68
Index Real Eff. X-R Base 1980	100.00	89.86	75.06	53.70	62.70	41.90
GDP (millions of current US$)	69,377	59,867	60,885	46,855	60,138	40,716

Central Government Budget	Share of GDP (%)						Growth Rates				
	1980	1985	1986	1987	1988	1989	1980-84	1986	1987	1988	1989
A. Total Revenues	24.7	23.4	18.5	17.3	15.6	..	10.1	-15.8	35.8	16.0	..
1. Tax Revenues	20.1	18.9	14.0	12.7	11.3	..	10.7	-21.3	32.1	14.7	..
2. Nontax Revenues	4.5	4.5	4.6	4.6	4.3	..	7.6	7.7	47.3	19.8	..
B. Total Expenditures	25.1	22.1	22.2	21.4	18.5	..	9.1	6.8	39.9	11.4	..
1. Current Expenditures	16.2	15.9	14.3	15.5	13.1	..	14.3	-4.5	58.1	8.1	..
2. Capital Expenditures	8.9	6.2	7.9	5.8	5.5	..	-3.2	35.7	7.2	20.3	..
C. Overall Balance	-0.4	1.2	-3.7	-4.1	-2.9	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions)						Debt Outstanding & Disbursed (US$ millions)					
	1980	1985	1986	1987	1988	1989	1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	1,113	-614	-918	-660	546	124	10,594	17,645	25,241	25,088	25,413	25,179
Official Creditors	20	-87	-54	73	73	261	571	396	326	395	451	729
Multilateral	-30	-29	-17	49	113	294	216	84	77	140	247	539
of which IBRD	-22	-22	-28	-16	-7	111	133	42	23	11	4	119
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	50	-58	-37	24	-40	-33	355	312	248	255	205	190
Private Creditors	1,094	-527	-863	-733	473	-137	10,022	17,249	24,916	24,693	24,962	24,450
Suppliers	26	-50	39	-152	636	282	121	795	867	631	1,263	1,545
Financial Markets	1,068	-477	-902	-581	-163	-419	9,901	16,454	24,049	24,062	23,699	22,905
Private Non-guaranteed	656	-50	-611	-944	-1,190	-50	3,181	8,645	7,734	6,076	4,883	4,833
Total LT	1,769	-664	-1,529	-1,604	-644	74	13,775	26,290	32,975	31,164	30,296	30,012
IMF Credit	0	0	0	0	0	998	0	0	0	0	0	998
Net Short-Term Capital	-1,896	-997	1,695	2,277	938	-3,647	15,535	8,950	1,575	4,041	4,361	1,221
Total incl. IMF & Net ST	-127	-1,661	166	673	294	-2,575	29,310	35,240	34,550	35,205	34,657	32,232

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.97	0.16	0.07	0.04	0.01	0.39
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	0.97	0.16	0.07	0.04	0.01	0.39
Share of LT Debt Service						
1. IBRD as % of Total	0.79	0.93	0.73	0.37	0.14	0.09
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	0.79	0.93	0.73	0.37	0.14	0.09
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	61.96	149.95	278.39	245.58	235.80	199.15
2. IMF Credit/Exports	0.00	0.00	0.00	0.00	0.00	6.62
3. Short-Term Debt/Exports	69.88	51.05	13.30	31.84	33.94	8.10
4. LT+IMF+ST DOD/Exports	131.84	200.99	291.68	277.42	269.75	213.88
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	19.86	43.91	54.16	66.51	50.38	73.71
2. IMF Credit/GDP	0.00	0.00	0.00	0.00	0.00	2.45
3. Short-Term Debt/GDP	22.39	14.95	2.59	8.62	7.25	3.00
4. LT+IMF+ST DOD/GDP	42.25	58.86	56.75	75.14	57.63	79.16
Debt Service /Exports						
1. Public & Guaranteed LT	13.29	13.53	25.99	21.81	25.48	26.95
2. Private Non-guaranteed LT	6.71	2.24	9.73	14.38	14.18	3.87
3. Total Long-Term Debt Service	20.00	15.77	35.72	36.19	39.66	30.82
4. IMF Repurchases+Serv. Chgs.						0.23
5. Interest only on ST Debt	7.15	8.70	7.24	1.18	3.24	2.12
6. Total (LT+IMF+ST Int.)	27.15	24.47	42.96	37.37	42.90	33.17

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Western Samoa

Western Samoa is a small island country in the South Pacific that has been independent since 1962, following a period as a United Nations trust territory administered by New Zealand. Although it is difficult to obtain a precise measure of non-monetized subsistence activities, per capita GNP is estimated to be about US$670 (1988). The country has a population of 159,000, most of whom live on the two main islands, Upolu and Savai'i. The main harbor is in Apia, the capital city and only major urban area, which is located on Upolu. Western Samoa had a reasonable transportation infrastructure prior to Cyclone Ofa which struck Samoa from February 1-4, 1990 and which has severely damaged the road system.

The population is homogeneous, almost wholly of Samoan extraction. The rate of population growth is quite low, about 0.8 percent per annum, owing to substantial emigration. Through the extended family network and the social services provided by the government, basic needs are relatively well satisfied, and social indicators approach, and in a number of cases equal, industrialized country standards. Adult literacy is almost universal. Most children have nine years of basic education and at least three years of high school education. A good coverage of health services has been achieved through district hospitals and village clinics.

Agriculture, including forestry and fishing, is the most important sector of the economy and accounts for over one half of employment and domestic output. Close to 90 percent of total exports are based on agriculture. The majority of the population practices subsistence agriculture, which contributes around 40 percent of GDP. The manufacturing sector accounts for only 6 percent of GDP and 5 percent of employment. The most important manufacturing operation has been a crushing mill which processes nearly all marketed copra into coconut oil and copra meal for export. Soap, matches, beer and cigarettes are also produced. Tourism, while offering much potential for further development, as yet accounts for only 3 percent of GDP.

The extent of emigration is one of the features of the Samoan economy. An average of 2,500 Samoans (over 1.5 percent of the population) have emigrated annually since the early 1970s and there are estimated to be nearly 100,000 living overseas, primarily in New Zealand, Australia and the United States (including American Samoa). Recorded remittances back to Western Samoa amounted to US$38 million in 1988, approximately the same as the total of commodity exports and external aid. The remittances are used primarily for consumption, mostly of imported goods, and domestic savings have for this reason been negative. Emigration at these levels however reduces the supply and increases the cost of labor in Samoa, reducing the competitiveness of traditional export crops (copra and cocoa). In these circumstances, there are special challenges in devising an appropriate development strategy for Western Samoa.

Recent Economic Performance

The economy experienced difficulties in 1980-82, with negative GDP growth, high inflation (around 20 percent), a deteriorating external payments position, and a large public-sector deficit. Inadequate planning and management in the public sector and plantation sector, especially the Western Samoa Trust Estates Corporation (WSTEC), were compounded by depressed commodity prices and adverse weather conditions which further weakened the performance of the agricultural sector. To overcome these economic difficulties, in 1983 the government adopted series of adjustment measures and restored a measure of stability. Real GDP growth resumed in 1983 at 0.5 percent and increased in 1984 to 2.1 percent; the rate of inflation moderated to under 12 percent; the budget deficit decreased; and the current account deficit (excluding transfers) was reduced to 13 percent of GDP in 1984 from 18 percent in 1982. The economy's stabilization during the 1983-84 period was further consolidated during 1985. Real GDP growth was 2 percent, as domestic demand grew with the maintenance of real producer prices for copra and increased remittances; inflation declined to about 9 percent per annum. The trade deficit widened, however, because of a substantial deterioration in the terms of trade (about 30 percent).

During 1986, as the price of copra in international markets continued to decline, the government introduced a contractionary budget. Total budgeted expenditure was maintained at the 1985 level, in nominal terms, through stringent cuts in the public investment program. The effort to restore stability was aided by a larger than expected STABEX grant; the overall budgetary position recorded a surplus of 3 percent of GDP. Budgetary restraint, coupled with a decline in the cost of petroleum imports, also contributed substantially to the reduction in the current account deficit from 11 percent of GDP in 1985 to about 6 percent in 1986. The lower deficit, combined with higher official transfers, resulted in an overall balance of payments surplus and allowed reserves to increase to more than five months of imports. Within the economy the reductions in public investment, while strengthening the balance of payments and fiscal accounts, contributed to a deceleration in economic growth by depressing activities in the construction and related sectors. Agricultural production is estimated to have declined by more than 3 percent in 1986, with the industrial sector, largely dependent on it, growing by less than 1 percent. Real GDP rose by less than 1 percent. Inflation slowed to under 6 percent reflecting the relative stability in world prices, tariff reductions, and the appreciation of the tala against the currencies of Australia and New Zealand.

A further reduction of inflation, higher financial inflows from abroad, and an acceleration of bank lending to the private sector provided the basis for a strong recovery in domestic demand in 1987. However, most of the increase in demand resulted in higher imports. Real GDP is estimated to have risen by only 1 percent. In the agricultural sector, production fell for the second consecutive year because of a decline in copra production and weak performance in other primary production, for a number of reasons including lack of new investment. Only the production of taro, an important source of cash income, rose strongly. Manufacturing production also declined as output of the coconut mills was curtailed by a shortage of copra. On the other hand, the construction and service industries, including tourism related activities, exhibited healthy growth.

In the balance of payments, the current account deficit, net of official transfers, amounted to 6 percent of GDP in 1987 but an overall balance of payments surplus of US$12 million was sustained with strong external support. Developments in 1987 included an increase in export earnings, aid and workers' remittances, offset by a steep rise in imports. Revenue performance was substantially better than initially envisaged, largely because of higher receipts from import duties and further inflows of STABEX funds. An overall budget surplus was maintained with support from capital grants, although expenditure also exceeded the original budget estimates by a significant extent, partly because of increased Treasury advances to public enterprises.

In 1988 the effects of drought experienced late in 1987 reduced the output of major crops and activity in the processing industries. Developments in the construction, trade and tourism sectors could not fully compensate, and real GDP is estimated to have declined marginally by 0.4 percent. Despite strong import growth in 1988, and a widening of the current account deficit to the equivalent of nearly 8 percent of GDP, an overall balance of payments surplus of US$12 million was again secured: inflation however, increased to 9 percent. Official aid inflows, all of which are in the form of grants or loans on concessional terms, were maintained at around their 1987 levels. Lower revenue growth in 1988 was offset by a decline in expenditure and net lending: the budget surplus, including grants, amounted to 8 percent of GDP.

The gains from continuing stabilization efforts were essentially maintained in 1989 - the recovery of food production helped to offset the inflation rate impact of higher civil service salaries and in fact the rate of inflation slowed to about 6 percent. Assisted by continued strong inflow of service receipts and remittances, the balance of payments strengthened and reserves increased to a record 9 months of merchandise imports. However, the lack of dynamism in the real economy, especially the agriculture sector, is still evident.

External Debt

The external debt situation has mirrored the movements in the balance of payments position during the eighties. External debt outstanding and disbursed increased by 23 percent over the 1980-83 period. As the external payments situation eased in 1984 and 1985, total government and government-guaranteed debt stabilized at US$64 million by end-1986, which represented 69 percent of GDP. With the increase in export receipts in the mid-eighties and an increase also in worker remittances, public debt service remained at around 10 percent of the value of goods and service exports and remittances through 1986. In 1987, this ratio was reduced to under 7 percent, declining further to 5 percent in the subsequent two years.

Development Issues and Prospects

With the gradual success of the external stabilization process, the priority for the government now is to revive economic growth consistent with external stability. Since 1985, GDP growth has stagnated at about 1 percent per annum, far below the rate for most developing countries. A natural rate of population growth of 2.5 percent per annum and the possibility of diminished migration prospects (and worker remittances) means that the generation of sufficient employment opportunities for a growing labor force adds to the urgency of reviving economic growth.

However, the short-term outlook for Western Samoa is dominated by the effects of Cyclone Ofa. Because of the decline in agricultural production, GDP is expected to fall by 2-3 percent in 1990. However, barring any further shocks, the economy should recover strongly over the subsequent 2-3 years. Annual GDP growth is expected to rise from an average of 1.9 percent over the past 5 years to about 3 percent for the coming 5 year period.

For Samoa to achieve this more rapid rate of economic growth, subsequent to the initial reconstruction and rehabilitation work, several areas require attention. Most importantly, primary attention needs to be devoted to the agriculture sector in Western Samoa, which is the mainstay of the economy, and which suffers from low productivity, management problems, constraints imposed by land tenure arrangements, variable prices for the major products, inelastic market demand and labor shortages. The government's strategy include efforts to improve management, raise treecrop productivity and explore the possibilities for crop diversification. These are areas where continuing attention will be required over the medium term. Second, growth in the industrial sector is also important, especially with regard to employment creation. Samoan industries have been constrained by the small size of the domestic market and ways around this will need to be sought in a more outward-looking strategy, utilizing the possibilities for preferred access to some external markets. Third, although gross receipts from tourism have been increasing quite rapidly, substantial further investment is required to upgrade hotel accommodation and related services, in order for tourism to play a more significant role in the economy's development.

Other areas in which action is required include the need for greater priority to be given to the development and maintenance of essential economic infrastructure which could improve the productivity of other investment. Improvements in the capacity of the civil service are also required, together with further restructuring of the public enterprise sector. Of particular importance for Samoa may be the efforts to encourage, the private sector to play a more important role. Improvements in financial sector policies and the banking system have been started.

Western Samoa has been reliant on aid to finance the bulk of its development expenditure (e.g., 70 percent of development spending on agriculture, 80 percent in the social sectors and 100 percent of transport investments) and at its UNDP Round Table Meeting in May 1990, further external support averaging US$30 million a year over the next five years was proposed for reconstruction and additional investments aimed at developing infrastructure and promoting private sector development. The real problems of aid for Western Samoa may relate less to the levels potentially available than to the absorptive capacity constraints and the effectiveness of its use. Problems of selection, design and implementation still have to be overcome and shortages of recurrent funding reduced through budgetary action including increased attention to cost recovery.

WESTERN SAMOA

Mid-1988 Population (thou.)	159
1988 Per Capita GNP in US$:	640

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates (% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	..	1.1	-0.4	0.2
Net Indirect Taxes	..	..	13.3	..	..	..	..	..	..	..	..
Agriculture	..	..	39.9	..	..	..	..	..	..	..	..
Industry	..	..	10.6	..	..	..	..	..	..	..	..
(of which Manufacturing)	..	..	4.8	..	..	..	..	..	..	..	..
Services	..	..	36.2	..	..	..	..	..	..	..	..
Resource Balance	..	..	-37.6	-41.8	-37.8	-37.3	..	..	..	..	..
Exports of GNFS /1	..	..	25.0	26.4	34.5	34.7	..	..	4.3	15.8	3.6
Imports of GNFS	..	..	62.6	68.2	72.3	72.0	..	..	0.7	5.0	-5.5
Total Expenditures	..	..	137.6	141.8	137.8	..	..	..	0.3	-0.8	..
Total Consumption	..	..	104.6	108.0	108.9	..	..	..	2.1	2.2	..
Private Consumption	..	..	86.9	89.8	90.9	..	..	..	3.4	2.9	..
General Government	..	..	17.7	18.2	17.9	..	..	..	-3.3	-3.4	..
Gross Domestic Investment	..	..	33.1	33.8	29.0	..	..	..	-4.6	-14.9	..
Fixed Investment	..	..	..	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	..	-4.5	-8.0	-8.9	..	..	..	..	..	..
Net Factor Income	..	..	..	0.5	0.7	0.6	..	..	..	..	..
Net Current Transfers	..	..	16.7	35.2	30.7	34.9	..	..	..	..	..
Gross National Saving	..	..	-87.8	27.7	22.5	..	..	..	13.3	-20.5	..
In millions of Tala (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	..	..	217	219	218	219	..	..	1.1	-0.4	0.2
Capacity to Import	..	..	60	58	75	72	..	..	5.3	29.2	-4.4
Terms of Trade Adjustment	..	..	4	0	8	2	..	..	..	..	..
Gross Domestic Income	..	..	220	219	226	221	..	..	1.3	3.1	-2.3
Gross National Product	..	..	..	220	219	219	..	..	2.6	-0.7	-0.1
Gross National Income	..	..	..	220	227	221	..	..	2.3	2.8	-2.6

C. Price Indices	*1980*	*1985*	(*1987 = 100*) *1986*	*1987*	*1988*	*1989*	Inflation Rates (% p.a.) *1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64) /2	44.6	90.4	95.6	100.0	108.5	115.6	3.9	11.4	11.3	8.5	6.5
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	47.6	95.3	95.8	100.0	110.0	113.5	..	..	10.6	10.0	3.2
Implicit Expenditures Defl.	45.7	92.1	96.2	100.0	107.4	..	..	..	11.0	7.4	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	1.8	0.6	1.0
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	1.2
Private Consumption p.c.	..	..	2.4
Import Elasticity:			
Imports (G+NFS) / GDP(mp) /3	..	..	0.7
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	..	..	-512.2
ICOR (period averages) /4	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	..	..	..	..
Industry	..	..	..	..
Services	..	..	..	..
Total	100.0	100.0	100.0	100.0

Notes:

1/ Goods and nonfactor services.
2/ Denotes the line number in the country pages of the International Financial Statistics, IMF.
3/ At market prices.
4/ Incremental capital-output ratio.
e/ Estimated data.

E. Merchandise Exports	Volume Index						Value at Current Prices (millions US$)					
	1980	1985	1986	1987	1988	1989	e/ 1980	1985	1986	1987	1988	1989
X.FOOD.COCONUT PRODUCT	267.0	205.6	125.8	100.0	109.8	73.4	9	8	4	6	9	6
X.BEV.COCOA	190.1	70.9	105.3	100.0	55.7	64.5	3	1	1	1	1	1
X.FOOD.TARO	36.1	94.7	83.9	100.0	85.3	133.5	1	2	2	2	3	3
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	4	5	4	2	3	2
Total Exports FOB	..	106.0	108.5	100.0	99.3	96.5	17	16	11	12	15	13
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	..	..	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports CIF	..	91.9	85.5	100.0	109.5	101.5	62	51	49	61	70	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	US$ millions (at current prices)					
	1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	26	26	24	28	41	39
Merchandise (FOB)	17	16	10	12	15	13
Non-Factor Services	8	10	13	16	26	26
Imports of Goods & NFS	72	58	56	71	86	80
Merchandise (FOB)	57	47	43	56	68	70
Non-Factor Services	15	11	14	15	18	10
Resource Balance	-46	-31	-33	-43	-46	-41
Net Factor Income	-3	-2	-1	1	1	2
(interest per DRS) /5	2	2	1	1	1	1
Net Current Transfers	19	24	28	36	35	38
(workers' remittances)	19	24	29	37	38	38
Curr. A/C Bal. before Off. Transf.	-30	-9	-5	-6	-9	-16
Net Official Transfers	17	11	17	17	15	15
Curr. A/C Bal. after Off. Transf.	-13	2	11	11	6	-1
Long-Term Capital Inflow	6	0	-1	3	1	4
Direct Investment	..	..	..	..	..	..
Net LT Loans (DRS data)	8	-1	-1	4	2	3
Other LT Inflow (Net)	-2	1	0	0	0	1
Total Other Items (net)	6	2	1	-3	5	15
Net Short Term Capital	4	-2	-1	0	-1	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	2	4	1	-3	5	..
Changes in Net Reserves	1	-4	-11	-12	-12	-19
Net Credit from the IMF	-1	1	0	-2	-4	-2
Other Reserves Changes	2	-5	-10	-10	-8	-17
As Share of GDP:						
Resource Balance	-41.1	-35.6	-35.1	-41.6	-39.4	-37.4
Interest Payments	2.1	1.9	1.5	1.3	1.2	1.1
Current Account Balance	-26.7	-10.8	-5.9	-5.9	-8.0	-14.6
Memorandum Items:						
Reserves excl. Gold (mil. US$)	3	14	24	37	49	55
Reserves incl. Gold (mil. US$)	3	14	24	37	49	55
Official X-Rate (LCUs/US$)	0.92	2.25	2.24	2.12	2.08	2.27
Index Real Eff. X-R Base 1980	100.00	84.56	78.60	75.28	75.22	..
GDP (millions of current US$)	112	88	93	103	116	109

Notes:

5/ The Bank's Debtor Reporting Service.
e/ Estimated data.

I. Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	..	37.6	40.5	45.3	46.6	43.3	..	13.9	17.9	12.6	-3.9
Current Expenditures	..	21.0	21.0	21.2	20.3	23.0	..	5.8	6.2	5.2	17.0
Current Budget Balance	..	16.6	19.5	24.1	26.3	20.3	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	..	30.7	29.2	34.1	31.8	29.9	..	0.8	22.8	2.3	-3.0
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	..	-14.1	-9.8	-10.0	-5.6	-9.6	..	..	..	..	..
Official Capital Grants	..	13.3	13.0	13.4	13.2	12.7	..	3.4	8.1	8.2	-0.6
External Borrowing (net)	..	0.9	1.0	2.8	1.0	5.1	..	..	..	..	..
Domestic Non-Bank Financing	..	0.3	3.1	2.0	0.4	1.1	..	..	..	..	..
Domestic Bank Financing	..	-0.4	-7.4	-8.2	-8.9	-9.3	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	8	-1	-1	4	2	3	53	63	64	71	71	74
Official Creditors	10	0	0	4	2	4	45	60	62	69	69	72
Multilateral	10	1	1	2	2	3	32	52	55	59	60	63
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	2	1	1	2	1	1	6	10	11	13	14	14
Bilateral	0	-1	-1	2	0	0	13	8	7	10	10	9
Private Creditors	-2	-1	-1	0	0	0	8	3	2	2	2	1
Suppliers	-1	0	0	0	0	0	0	0	0	0	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	8	-1	-1	4	2	3	53	63	64	71	71	74
IMF Credit	0	0	-2	-3	-4	-2	6	11	10	8	4	2
Net Short-Term Capital	4	-2	-1	0	-1	..	1	1	1	1	1	1
Total incl. IMF & Net ST	12	-3	-4	0	-3	..	60	75	75	80	76	76

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD /6						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	11.84	16.03	17.16	17.77	19.07	19.54
3. IBRD+IDA as % of Total	11.84	16.03	17.16	17.77	19.07	19.54
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	0.00	1.89	1.92	2.63	2.44	2.27
3. IBRD+IDA as % of Total	0.00	1.89	1.92	2.63	2.44	2.27
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	119.78	123.60	119.64	104.90	87.15	90.65
2. IMF Credit/Exports	13.06	21.38	18.85	12.13	4.68	1.97
3. Short-Term Debt/Exports	2.25	1.96	1.87	1.48	1.23	1.23
4. LT+IMF+ST DOD/Exports	135.09	146.94	140.36	118.52	93.06	93.85
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	47.49	71.86	68.74	68.54	61.30	67.31
2. IMF Credit/GDP	5.18	12.43	10.83	7.93	3.29	1.46
3. Short-Term Debt/GDP	0.89	1.14	1.07	0.97	0.87	0.91
4. LT+IMF+ST DOD/GDP	53.56	85.44	80.65	77.43	65.45	69.68
Debt Service /Exports						
1. Public & Guaranteed LT	10.36	10.40	9.71	5.62	5.05	5.41
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	10.36	10.40	9.71	5.62	5.05	5.41
4. IMF Repurchases+Serv. Chgs.	1.58	4.51	5.04	5.62	5.42	2.83
5. Interest only on ST Debt	0.45	0.20	0.19	0.15	0.12	0.12
6. Total (LT+IMF+ST Int.)	12.38	15.11	14.93	11.39	10.59	8.36

Notes:

6/ Debt outstanding and disbursed.
e/ Estimated data.

Republic of Yemen

These country reports were prepared before the merging of the Yemen Arab Republic (YAR) and the People's Democratic Republic of Yemen (PDRY), on May 22, 1990. Hence, separate texts are given below.

Yemen Arab Republic

Over the past two decades, YAR experienced far-reaching changes in its socio-economic structure and the material welfare of its citizens. The republican government, which came to power following the 1962 revolution, quickly succeeded in establishing the foundations for a modern state, building public institutions, integrating the country, and initiating modern economic development largely within the liberal market framework. Physical and social infrastructure expanded; first attempts were made to modernize agriculture, the mainstay of the economy; and industrialization was started. These efforts resulted in rapid economic growth. During 1973-80, growth averaged 12 percent per year while macroeconomic balances were maintained. At the same time, the benefits of the growth are believed to have been widely distributed.

The economy markedly slowed down and the macro-balances sharply deteriorated after 1981, due to droughts, lower inflows of workers's remittances and aid, fast increases in public expenditures, and overvaluation of the rial. The government responded by launching in 1983 a stabilization program to correct both fiscal and external imbalances, mainly by cutting public sector investment, freezing wages, devaluing the rial several times, and restricting imports. As a result, both the budget deficit and the balance of payments current account deficit substantially declined. With the start of oil exports in late 1987, and the political difficulty of maintaining austerity for a long period, the stabilization efforts were relaxed. Imports rose rapidly, investment increased, and wages were unfrozen. The relaxation of austerity, together with the return of normal rainfalls, increased oil extraction and exports, resulted in rapid economic growth in 1988 of about 14 percent. The growth, however, has since slowed down markedly to 4 percent in 1989 and is accompanied by large budget and balance of payment deficits, because of a substantial rise in government expenditures and a sharp decline in workers's remittances. Of particular significant is the government's increased borrowing of short-term, high-cost loans to finance the deficits. Short-term debt has rapidly increased to more than a quarter of external indebtedness.

Oil extraction has begun to substantially change output and export structure. The share of industrial sector rose to 26 percent of GDP in 1989, compared to 18 percent in 1986. Total merchandise exports went up from $16 million in 1986 to $1,186 million in 1989 as oil exports increased from nil to $1,119 million. Despite these dramatic changes, the economy continues to display some of its former characteristics. Of particular concern, virtually all production still goes to consumption and gross domestic savings have been largely negative over the last decade. Fixed investment, despite the substantial amount going into oil development, remains extremely low, at 12 percent of GDP in 1989. Investment is still financed totally by external resources, mainly in the form of workers' remittances and borrowing. Such low investment and high dependence on external resources do not bode well for future growth prospects.

Development Priorities and Policies

The Third Five-Year Plan (1987-91) was formulated in the context of raised expectations generated by the discovery of oil. This plan reveals that, the government is convinced that oil is not the panacea to YAR's problems and accepts that policy changes are needed. As a result, the plan retains a sense of perspective as its objectives and programs remain within a long-term framework that projects the needs of the Yemeni society into the next century. Market orientation of the economy is maintained, while sectoral development priorities are being shifted from infrastructure toward the traded goods sectors favoring projects with shorter gestation periods. Both agricultural and industrial sectors, including petroleum, would be given the leading role.

The plan recognizes the persistent serious imbalances in the economy and aims at generating enough domestic resources to finance about one third of the investment. Fiscal measures are to be the tools to reduce the overall deficits, especially in the latter years of the plan. Liquidity expansion, a main source of past deficit financing and inflationary pressures, is to be restrained so that price stability can be maintained. Investment certificates and government bonds for sale to the nonbank private sector will be introduced and medium- and long-term deposits by the public will be promoted. At the same time, a flexible exchange rate policy will be pursued. In February 1990, the Rial was devalued by 23 percent. A draft investment law in now being considered by the National Assembly. This law will help promote private investment, both from domestic and from foreign sources, to liberalize the economy further, maintaining basically market principles in all spheres of economic management. Unification is not expected to substantively change this approach.

Medium-Term Outlook

YAR's economic outlook has changed considerably since the discovery of oil and gas. Oil reserves are confirmed at 600 million barrels. Oil exports started in late 1987 at the rate of 130,000 barrels per day, increasing to 190,000 barrels per day in early 1989. Extraction is projected at 177,000 barrels per day during 1991-97. As a result, currently known recoverable oil reserves will be exhausted before the end of this century. Gas reserves are estimated at over 5 trillion cubic feet, with about 2.5 trillion cubic feet in associated gas. These reserves have not been exploited so far although some projects are being planned.

Although oil revenues will considerably reduce YAR's dependence on external resources and play a significant role in the country's development prospects in the coming decade, they are not a good substitute for appropriate economic policies—the fact the government has now recognized. The government is aware of the mistakes made by other countries which benefitted from the windfall incomes and is determined to avoid committing similar errors. The government is not excessively burdened by serious rigidities, such as food subsidy, unemployment benefits, and minimum wage law. The economy is not saddled with a high level of protection, and a large public enterprise sector. This does not mean that the government has already worked out a set of policy package that can be readily assessed. YAR's economic outlook, therefore, depends a great deal on the timeliness and adequacy of government policies. On the basis of government's expressed intentions and its record on the stabilization efforts in response to economic deterioration in the early 1980s, it is possible to hope that appropriate policies will be adopted. The full effectiveness of these policies, however, will likely be tempered somewhat by the "gradual" approach being taken by the government, and by the unification with PDRY, which is a much poorer economy also experiencing serious economic and financial difficulties.

Peoples' Democratic Republic of Yemen

Situated in the southwestern corner of the Arabian Peninsula, PDRY covers an area of 333,000 square km and extends nearly 1,400 km along the Gulf of Aden. Its population of about 2.1 million (1988) is estimated to have grown at around 2.3 percent per annum in recent years. The majority of the population lives on the narrow coastal plain along the Gulf. There is also a concentration of population in the Wadi Hadramawt, a large fertile valley in the center of the country. The rest of the population, of which 10 percent is bedouin, lives in small scattered communities. There are also an estimated 200,000 Yemenis working outside PDRY. It is a semi-arid land of rugged configuration with sparse vegetation, low rainfall and few natural resources. Agricultural production is limited to some 12 scattered valleys (wadis) comprising the total cultivable area of about 200,000 ha, or less than 1 percent of the country's land surface. The one major resource is fish, which is not yet fully exploited. Except for the oil refinery at Little Aden, there is little industrial activity in the country.

The country is still at a low level of development, its institutions are relatively weak, its resources are limited and its per capita income was estimated at US$430 in 1988. The economy remains highly dependent on workers' remittances and foreign aid, both of which have declined dramatically in the past two years. The government tries to cope with the situation through rigorous import controls and financial retrenchment. Attempts to reform the centrally controlled economic system through price liberalization remain partial. The government hopes that further adjustments in incentives and in macroeconomic management will enable the economy to partially overcome its inherent constraints.

Development Objectives and Constraints

Prior to independence in 1967, the economy was mainly centered around Aden and depended heavily on services provided by the port of Aden and on budgetary support from the United Kingdom. Following independence, the government has sought to diversify the economy and carry economic development to all parts of the country. Since the early 1970s and prior to the unification, the government of PDRY has employed a planned economic system embodying state-owned enterprises in industry and services, and state farms and cooperatives in agriculture and fisheries. The principal objectives of the government have been: (a) to satisfy the basic needs of the population for food, essential consumer goods, shelter, employment, health care and other social services; (b) to develop the production capacity of the economy, especially in agriculture, fisheries, manufacturing, construction and minerals; (c) to strengthen the infrastructure sectors, transport, power and telecommunications; (d) to raise education standards, emphasizing technical and higher education; and (e) to increase exports.

Private enterprise was given a subsidiary role by the government and was to be gradually replaced by public corporations and cooperatives. The private sector, however, has proven to be resilient and appears to have regained some strength in recent years. At present, it is estimated to account for almost half of the nation's gross output of goods and services (excluding general administration and defense). Private activity can be found in almost every sector and is strongly represented in agriculture, construction, trade and transport. Cooperation between public and private capital is encouraged in some areas, such as light industries, and a limited number of joint ventures are now active. Foreign investors have been invited to participate in oil exploration and in the fishing industry. An Investment Promotion Law was promulgated in 1981 providing incentives to private investors and encouraging foreign investment in other sectors such as tourism and construction. The response has been good from both Yemeni nationals returning from abroad and foreign investors. Investment agreements have been concluded mainly in fisheries and the energy sector. Further strengthening of incentives is being contemplated by the government to attract private investment.

During the 1970s and early 1980s the country made significant progress in a number of areas. Supplies of basic foodstuffs and other essential consumer goods were increased, largely through higher imports. School enrollment rose sharply, adult literacy programs were introduced, and health services improved. The transport network was strengthened, new power stations built, and productive capacities expanded in agriculture, fisheries and manufacturing. Substantial investments were made in mineral exploration, and there was an upsurge in construction of private housing. Rising investment led to a rapid expansion of the local construction industry. These developments were supported by substantial aid inflows, and by large remittances of Yemenis working abroad.

Economic expansion, together with net emigration abroad, not only eliminated open unemployment, but created some labor shortages. The government has tried to ease the shortages of adequately trained manpower with bilateral and multilateral technical assistance. In addition, a large education and training program was launched with foreign assistance (including IDA), which in recent years has become increasingly technically oriented. Finally, serious efforts have been made to remove barriers to women's economic and social participation.

Low productivity in the public and cooperative sectors is one of the principal problems faced by the government. Notwithstanding large investments in agriculture and fisheries, production in these sectors appears to have stagnated through much of the 1980s. In addition to shortages of trained manpower, stagnation can be traced largely to inadequate incentive systems, including low government procurement prices, weak management, lack of spare parts, and poor maintenance; often compounded by state control which caused distortions and stifled initiative.

In early 1990, and in view of the unification of the two Yemens, the government took a number of initiatives and started to pursue more flexible price and procurement policies to provide incentives for farmers and fishermen. For example, state procurement prices for most agricultural crops and fish have been substantially increased since 1980, accompanied by measures permitting farmers and fishermen, both as individuals and in cooperatives, to sell a large portion of their output on the free market at prices substantially above state procurement prices. While the impact of these recent policy changes is hard to judge, limited evidence suggests some positive results. Nonetheless, there remains a need for strengthening incentives aimed at stimulating local production and for improving marketing channels in both agriculture and fisheries.

Recent Economic Developments

Since 1982, pressures on the economy have been mounting. Production growth has slowed down as a result of disastrous floods in early 1982, a subsequent drought which continued into early 1986, and the hostilities of January 1986. The floods of 1982 inflicted severe damage on the country's infrastructure and on the agriculture sector, causing crop losses affecting both domestic consumption and exports. Industrial output was constrained by shortages of inputs. In addition, the government restricted imports and lowered its investment activity. As a result, GDP growth averaged about 2.0 percent during 1982-89.

To sustain a high level of public spending, the government has made a major effort in mobilizing financial resources. Since the early 1980s, a number of new tax measures have been introduced and tax collection has improved. In addition, greater effort is being made to improve the profitability of public enterprises. As a result, total public sector income rose from US$350 million in 1982 to US$452 million in 1989 or the equivalent of 35 percent of GNP. However, this still left a large overall deficit in the public sector amounting to US$527 million in 1989, or 41 percent of GNP.

To supplement the insufficient domestic resources, the government turned for help from friendly nations and international agencies. Large amounts of foreign aid were provided, mostly by socialist countries and Arab nations. In addition, PDRY received support from regional and international organizations, including IDA. Gross foreign aid inflows reached a peak of US$301 million in 1982 but declined in the following years, averaging US$260 million a year during 1986-1989. This reflected mainly the changing economic conditions in the neighboring oil exporting countries.

Workers' remittances coming mostly from the Gulf region also fell drastically in the wake of declining world oil prices. After averaging US$450 million a year during 1982-1984 they were down to US$304 million in 1987 and US$161 million in 1989. As workers' remittances and foreign aid are by far the two most important sources of foreign exchange earnings (commodity exports account for less than 10 percent), their sharp decline forced the government to cut imports by over 36 percent from an average of US$790 million a year during 1982-1984 to about US$634 million in 1988 and 1989. By end 1989, foreign exchange reserves stood at US$106 million which is equivalent to about 2 months of imports.

Impact of Floods on the Economy

The floods of March/April 1989 caused considerable physical damage and interrupted economic activity in the country. Government's assessment of total damages was roughly estimated at US$160 million which is about 13 percent of GDP in 1989. The level of economic activity in 1989 was no doubt affected due to agricultural crop losses of about US$6 million (wheat, cotton and tobacco) and disruption of transport and communications, services and trade. Preliminary figures indicate GDP grew by 3 percent in 1989 and the government authorities estimate that the overall real growth rate will be about 2.5 percent during 1990 as against 4 percent anticipated for the same period prior to the floods. Immediately after the floods, the government undertook essential relief and rehabilitation work with assistance from some donors and with local funds.

These floods hit the country at a time when it was experiencing a difficult economic situation. The fiscal deficit is estimated in 1990 to reach an unprecedented YD214 million (about 46 percent of GNP) and the current account deficit is estimated at US$360 million (about 27 percent of GNP). Indications are that the government intends to reduce the fiscal deficit mainly by drastic cuts in capital expenditure. Efforts will also be made to increase revenues by about 10 percent through increases in import duties, consumption taxes and contributions from a few public sector enterprises. The current account deficit of the balance of payments is also expected to be reduced to about US$175 million in 1992, reflecting a sharp reduction of imports mainly for capital goods.

Medium-Term Prospects

While financial pressures are likely to persist in the coming two or three years, in the medium term, prospects for a sustained recovery are reasonable because of the recently found oil. Production is expected to start in 1992 initially at a rate of 30-50 thousand b.p.d. This is expected to generate about US$150-250 million a year of export earnings. However, there is also an urgent need for changes in policies aimed at easing existing rigidities and distortions in price structures of liberalizing trade, as well as providing more opportunities for private sector activities. The performance of the public sector enterprises also needs to be improved by providing appropriate incentives, greater autonomy in pricing, wages, production, etc., and making them economically and financially viable.

External Debt

The large inflow of foreign aid since the early 1970s led to a rapid accumulation of PDRY's external public debt, even though part of the aid was provided in the form of grants. Total debt outstanding (including undisbursed) as of December 31, 1988 amounted to US$3,133 million, of which US$1,772 million was disbursed. IDA's share of this debt disbursed and outstanding is estimated at about 7 percent. Bilateral sources accounted for US$2,371 million or 75 percent of total commitments, with the USSR providing the bulk, followed by China, Eastern European countries, Arab countries and France. Multilateral commitments amounted to US$762 million, including US$546 million from the Arab Funds, US$210 million from IDA and US$6 million from the European Common Market.

Notwithstanding the concessionary terms of PDRY's external debt, service payments rose from US$23 million in 1982 to about US$60 million in 1988, equivalent to 14 percent of gross foreign exchange earnings during that year. Debt service obligations have started to rise and are projected to increase further in future years. This will exert additional pressure on its balance of payments. Therefore, in view of the country's low income level and low level of development, it is imperative that PDRY obtain the bulk of future assistance in the form of grants and soft term loans .

YEMEN ARAB REPUBLIC

Mid-1988 Population (mils.)	9	1/
1988 Per Capita GNP in US$:	650	

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates (% per annum) (from constant price data)				
	1973	*1981*	*1986*	*1987*	*1988p*	*1989e*	*1973-80*	*1980-87*	*1987p*	*1988p*	*1989p*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	11.7	5.6	4.4	13.9	4.3
Net Indirect Taxes 2/	5.0	11.9	8.4	5.2	5.2	5.1	21.0	4.4	-31.0	-0.5	-2.1
Agriculture	44.8	23.1	29.7	27.4	23.0	20.3	1.3	2.3	-0.4	9.2	2.3
Industry	10.0	17.0	17.6	19.6	26.3	26.3	20.9	8.3	18.9	52.3	11.0
(of which Manufacturing)	4.2	8.5	11.9	13.6	12.5	12.3	19.6	13.3	16.0	4.3	3.2
Services	40.2	48.0	44.3	47.7	45.4	48.4	10.9	6.1	8.7	1.9	2.1
Resource Balance	-27.5	-54.1	-22.0	-32.8	-13.5	-4.9	..	..	..	..	..
Exports of GNFS	2.7	7.3	3.2	5.3	17.3	19.0	14.1	-5.6	50.9	371.1	11.4
Imports of GNFS	30.2	61.4	25.2	38.1	30.8	23.9	17.8	-10.3	42.5	0.5	-3.6
Total Expenditures	127.5	154.1	122.0	132.8	113.5	104.9	13.9	1.2	11.1	-2.5	0.9
Total Consumption	110.6	115.8	108.5	115.1	100.6	94.1	10.6	4.4	12.9	-2.8	2.1
Private Consumption	96.6	94.3	92.3	96.0	79.6	76.1	10.4	4.5	13.0	-6.2	5.0
General Government	14.0	21.5	16.2	19.1	20.9	18.1	12.1	3.7	12.3	16.3	-11.7
Gross Domestic Investment	16.8	45.8	13.1	13.1	13.1	13.1	26.4	-12.1	-2.0	0.5	-9.1
Fixed Investment	14.8	37.0	13.2	13.8	13.1	11.6	28.7	-10.7	-2.6	0.6	-8.2
Changes in Stocks	2.1	1.4	0.1	0.7	0.7	0.6	..	..	130.4	-13.2	..
Gross Domestic Saving	-10.6	-15.8	-8.5	-15.1	-0.6	5.9	..	..	111.6	..	..
Net Factor Income	21.6	13.4	8.4	7.7	0.9	0.1	6.5	-4.4	-4.4	-87.2	-92.0
Net Current Transfers	19.3	12.0	6.7	9.0	3.0	2.3	23.0	-12.1	40.5	-62.4	-6.4
Gross National Saving	30.3	9.6	6.6	1.6	3.3	8.2	23.6	-9.5	..	..	33.6

In millions of YRls (at constant 1986 prices)	*1973*	*1981*	*1986*	*1987*	*1988*	*1989e*					
Gross Domestic Product	8,406	28,973	37,505	39,173	44,635	46,571	11.7	5.6	4.4	13.9	4.3
Capacity to Import	180	2,329	1,218	1,867	7,605	10,396	10.6	-8.5	53.3	307.4	36.7
Terms of Trade Adjustment	91	269	0	29	-1,054	751	-0.9	0.0	..	..	..
Gross Domestic Income	8,497	29,242	37,505	39,202	43,581	47,322	8.2	8.3	4.5	11.2	8.6
Gross National Product	9,913	33,905	40,668	42,008	45,020	46,622	8.0	7.2	3.3	7.2	3.6
Gross National Income	10,036	34,174	40,668	42,037	43,966	47,373	7.9	7.2	3.8	4.1	6.5

C. Price Indices			(1987 = 100)				Inflation Rates (% p.a.)				
	1981	*1985*	*1986*	*1987*	*1988p*	*1989p*	*1973-80*	*1980-87*	*1987*	*1988p*	*1989e*
Consumer Prices (IFS 64)	49.3	76.9	100.0	122.0	142.0	170.4	17.9	13.8	22.0	16.4	20.0
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	55.2	88.2	100.0	111.1	120.5	141.9	16.1	10.8	11.1	8.4	17.8
Implicit Expenditures Defl.	140.6	86.4	100.0	113.8	123.2	138.6	17.1	11.8	13.8	8.3	12.5

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-87*
Population	3.0	3.0	3.0
Labor Force	..	..	..
Gross Natl. Income p.c.	..	5.0	5.0
Private Consumption p.c.	..	5.2	6.5
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	2.2	-1.9
Marginal Savings Rates:			
Gross National Saving	..	55.2	-4.9
Gross Domestic Saving	..	-30.1	0.3
ICOR (period averages): 3/	..	3.4	4.2

Share of Total Labor Force in:	*1965*	*1975*	*1980*	*1987*	*1988*
Agriculture	79.0	74.0	68.8	..	..
Industry	7.2	8.0	9.2	..	..
Services	13.8	18.0	22.0	..	..
Total	100.0	100.0	100.0	..	..

1/ U.N. data is source for population in GNP per capita, and is about 15% lower than Census data of 1986.
2/ Import duties only.
3/ Historical ICORs reflect periods 1975/76-1980/81 and 1982-87.
4/ Since domestic savings are, in fact, dis-savings, a negative growth rate indicates an increase in savings and a positive growth rate indicates a decrease in savings.

E. Merchandise Exports	*Volume Index (1987=100)*						*Value at Current Prices (millions US$)*					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988p*	*1989p*
Oil 1/	..	..	..	100.0	1177.0	1297.0	..	..	..	26	808	1,119
Commodity 2	..	..	..	..	..	..	..	..	..	..	..	..
Commodity 3	..	..	..	..	..	..	..	..	..	..	..	..
Commodity 4	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Other Exports	..	..	..	100.0	148.5	202.0	13	8	16	31	50	67
Total Exports FOB	..	..	..	100.0	872.0	972.0	13	8	16	57	858	1,186
F. Merchandise Imports												
Food	..	..	..	100.0	96.0	..	561	..	208	368	380	..
Fuel and energy	..	..	..	100.0	104.0	..	355	198	182	172	184	..
Other Consumer Goods	..	..	..	100.0	75.0	..	607	..	287	320	406	..
Other Intermed. Goods	..	..	..	100.0	106.0	..	56	..	61	209	144	..
Capital goods	..	..	..	100.0	115.0	..	290	..	130	190	197	..
Total Imports FOB	..	..	..	100.0	95.0	87.2	1,869	1,106	868	1,259	1,311	1,203

G. Terms of Trade (1987=100)	*1980*	*1985*	*1986*	*1987*	*1988*	*1989p*
Merch. Exports Price Index	..	..	..	100.0	84.1	104.3
Merch. Imports Price Index	..	..	..	100.0	107.3	107.0
Merch. Terms of Trade	..	..	..	100.0	78.4	97.5

1/ Oil exports began in November 1987 with a small base, and therefore show a sharp increase in 1988.

H. Balance of Payments	*US$ millions (at current prices)*					
	1980	*1985*	*1986*	*1987p*	*1988p*	*1989p*
Exports of Goods & NFS	222	159	129	225	952	1,289
Merchandise (FOB)	13	8	16	117	858	1,186
Non-Factor Services	209	151	113	108	93	103
Imports of Goods & NFS	2,276	1,348	1,075	1,565	1,687	1,621
Merchandise (FOB)	1,915	1,106	868	1,260	1,311	1,202
Non-Factor Services	361	242	207	305	376	419
Resource Balance	-2,054	-1,189	-946	-1,340	-735	-331
Net Factor Income	629	378	336	329	48	6
(interest per DRS)	6	18	43	48	61	113
Net Current Transfers	586	389	266	384	164	154
(workers' remittances)	843	451	340	428	193	190
Curr. A/C Bal. before Off. Transf.	-840	-422	-355	-666	-785	-531
Total Official Transfers (net)	148	103	241	160	91	108
Curr. A/C Bal. after Off. Transf.	-692	-319	-115	-506	-695	-423
Long-Term Capital Inflow	436	137	171	-19	124	-62
Direct Investment	0	18	15	2	0	0
Net LT Loans (DRS data)	436	133	156	-21	124	-62
Other LT Inflow (Net)	0	-14	0	0	0	0
Total Other Items (net)	86	21	137	471	296	318
Net Short Term Capital	-72	11	130	142	231	308
Capital Flows N.E.I.(Arrears)	59	0	1	0	0	156
Errors and Omissions	158	10	7	330	66	9
Changes in Net Reserves	111	161	-194	53	275	12
Net Credit from the IMF	0	2	-4	0	0	0
Other Reserves Changes	111	159	-190	53	275	12
As Share of GDP:						
Resource Balance	-61.3	-27.9	-23.7	-31.4	-13.4	-4.9
Interest Payments	0.2	0.4	1.1	1.1	1.1	1.7
Curr Acct Bal after off tran	-20.6	-7.5	-2.9	-11.9	-12.6	-6.3
Memorandum Items:						
Reserves incl. Gold (mil. US$)	1,283	537	689	688	413	401
Official X-Rate (YRls/US$)	5	7	10	10	10	10
X-Rate for GNP conversion	4.56	7.27	9.42	10.21	9.77	9.76
Index Real Eff. X-R Base 1980	100.00	114.20	96.00	95.50	108.20	130.00
GDP (millions of current US$)	3,351	4,261	3,984	4,264	5,502	6,769

I. Budget (specify level)	*Share of GDP (%)* 1980	1985	1986	1987	1988p	1989p	*Growth Rates* 1980-85	1982-87	1987	1988p	1989
Current Receipts	21.6	17.2	19.2	17.5	24.2	24.7	13.0	11.6	6.1	70.9	25.0
Current Expenditures	26.5	29.3	28.0	30.0	30.9	27.3	20.9	9.6	24.4	27.1	8.4
Current Budget Balance	-4.9	-12.0	-8.9	-12.5	-6.7	-2.6	..	0.3	..	..	..
Capital Receipts		0.1		..	..	..	..	..	..	..	..
Capital Expenditures	25.1	8.0	7.8	12.3	10.3	6.8	..	8.9	83.2	3.8	-19.4
Adjustments	-2.0	-1.5	-1.5	-0.9	-1.1	-4.1	..	..	..	..	..
Overall Deficit	-28.0	-18.4	-15.2	-23.9	-15.9	-5.3	..	6.1	72.9	-15.4	-32.1
Official Capital Grants	4.7	2.1	4.9	3.4	1.6	1.6	..	..	-20.6	-39.5	18.6
External Borrowing (net)	14.4	2.5	1.7	5.4	4.6	-1.1	..	11.6	261.6	6.4	-129.7
Domestic Non-Bank Financing	..	..	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	8.9	13.8	8.6	15.2	10.1	6.0	..	4.4	105.5	-17.5	-27.4

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989e	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989e
Public & Publicly Guar. LT	436	127	156	-21	124	-16	925	1,842	2,110	2,291	2,378	2,355
Official Creditors	429	129	89	8	153	-30	910	1,832	2,032	2,241	2,358	2,320
Multilateral	36	63	44	3	29	66	168	453	514	558	570	685
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	22	30	27	29	28	27	102	229	264	310	331	354
Bilateral	393	66	45	6	124	-96	741	1,379	1,518	1,682	1,787	1,636
Private Creditors	7	-2	67	-30	-29	15	15	10	78	50	20	34
Suppliers	-1	0	0	0	0	0	0	0	0	0	0	0
Financial Markets	8	-2	67	-30	-29	15	15	10	78	50	20	34
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	436	127	156	-21	124	-16	925	1,842	2,110	2,291	2,378	2,355
IMF Credit	0	0	-4	-6	-2	0	0	11	8	2	0	0
Net Short-Term Capital	..	..	..	..	..	..	86	180	249	340	570	623
Total incl. IMF & Net ST	436	127	152	-27	122	-16	1,011	2,033	2,367	2,633	2,948	2,978

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989e
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	11.02	12.45	12.52	13.52	13.90	15.04
3. IBRD+IDA as % of Total	11.02	12.45	12.52	13.52	13.90	15.04
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	2.83	3.55	3.19	2.18	2.22	1.12
3. IBRD+IDA as % of Total	2.83	3.55	3.19	2.18	2.22	1.12
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	54.44	182.90	246.26	216.17	169.63	129.52
2. IMF Credit/Exports	0.00	1.06	0.88	0.16	0.00	0.00
3. Short-Term Debt/Exports	5.06	17.87	29.08	32.08	40.67	34.27
4. LT+IMF+ST DOD/Exports	59.51	201.84	276.22	248.42	210.30	163.79
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	27.60	43.22	52.97	53.73	43.22	34.79
2. IMF Credit/GDP	0.00	0.25	0.19	0.04	0.00	0.00
3. Short-Term Debt/GDP	2.57	4.22	6.26	7.97	10.36	9.20
4. LT+IMF+ST DOD/GDP	30.17	47.70	59.42	61.74	53.58	43.99
Debt Service /Exports						
1. Public & Guaranteed LT	1.31	7.28	12.09	16.84	13.79	20.64
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	1.31	7.28	12.09	16.84	13.79	20.64
4. IMF Repurchases+Serv. Chgs.		0.07	0.58	0.64	0.11	
5. Interest only on ST Debt	0.88	1.88	1.68	2.06	2.66	2.53
6. Total (LT+IMF+ST Int.)	2.20	9.23	14.35	19.54	16.56	23.17

Notes:

The use of estimates and preliminary figures are indicated by:

e = estimated data
p = preliminary data

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

Mid-1988 Population (mils.)	2.1
1988 Per Capita GNP in US$:	430

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates (% per annum) (from constant price data)					
	1984	*1985*	*1986*	*1987*	*1988*	*1989 e/*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989 e/*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	..	-3.0	-12.8	1.5	0.7	1.7
Net Indirect Taxes	17.2	16.1	14.2	14.2	14.0	12.9	..	..	..	..	..	..
Agriculture	10.3	11.4	13.1	13.7	14.5	15.0	..	..	..	..	..	..
Industry	7.8	9.4	10.1	9.5	9.5	11.4	..	..	..	..	..	..
(of which Manufacturing)	..	..	..	..	..	..	..	..	..	..	..	..
Services	64.7	63.1	62.6	62.6	62.0	60.7	..	..	..	..	..	..
Resource Balance	..	..	..	..	..	..	..	..	..	..	..	..
Exports of GNFS	..	..	..	..	..	..	..	..	..	..	..	..
Imports of GNFS	..	..	..	..	..	..	..	..	..	..	..	..
Total Expenditures	..	..	..	..	..	..	..	..	..	..	..	..
Total Consumption	..	..	..	..	..	..	..	..	..	..	..	..
Private Consumption	..	..	..	..	..	..	..	..	..	..	..	..
General Government	..	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Investment	..	..	..	..	..	..	..	..	..	..	..	..
Fixed Investment	..	..	..	..	..	..	..	..	..	..	..	..
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	..	..	..	..	..	..	..	..	..	..	..	..
Net Factor Income	22.2	19.3	14.9	13.9	11.1	6.7	..	..	..	..	..	..
Net Current Transfers	44.4	38.5	29.9	27.9	22.2	13.5	..	..	..	..	..	..
Gross National Saving	..	..	..	..	..	..	..	..	..	..	..	..
In millions of LCUs (at constant 1985 prices)	*1984*	*1985*	*1986*	*1987*	*1988*	*1989 e/*						
Gross Domestic Product (FC)	327	321	286	290	293	302	..	-1.8	-10.8	1.4	1.0	3.0
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..	..
Gross National Product (FC)	414	394	335	338	331	325	..	-4.6	-15.0	0.9	-2.1	-1.8
Gross National Income	..	..	..	..	..	..	..	..	..	..	..	..

C. Price Indices	(1984 = 100)						Inflation Rates (% p.a.)					
	1984	*1985*	*1986*	*1987*	*1988*	*1989 e/*	*1973-80*	*1985*	*1986*	*1987*	*1988*	*1989 e/*
Consumer Prices (IFS 64)	127.7	134.2	135.3	137.2	..	..	8.1	..	..	..	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	9.5	..	..	..	..	..
Implicit GDP Deflator(1985=100)	98.8	100.0	101.7	111.2	116.1	118.9	..	1.2	1.7	9.3	4.4	2.4
Implicit Expenditures Defl.	..	..	..	..	..	..	..	..	..	..	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-86*
Population	2.0	2.1	3.1
Labor Force	..	..	..
Gross Natl. Income p.c.	..	..	..
Private Consumption p.c.	..	..	..
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	..	..
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	..	..	..
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*
Agriculture	54.4	47.9	41.1	43.0	39.8	39.2
Industry	12.2	14.4	17.6	10.6	10.4	10.7
Services	33.4	37.7	41.4	46.4	49.8	50.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

E. Merchandise Exports	*Volume Index (1980=1*						*Valueat Curre*					
	1984	*1985*	*1986*	*1987*	*1988*	*1989*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989 e/*
Food	..	..	..	..	..	..	18	19	19	24	..	
Other Agriculture	..	..	..	..	..	..	5	8	4	8	..	
Minerals & Fuels	..	..	..	..	..	..	4	10	4	35	..	
Manufactures	..	..	..	..	..	..	1	2	1	1	..	
Others	..	..	..	..	..	..	3	3	4	3	..	
Total Exports FOB	..	..	..	..	..	..	31	43	31	71	80	
F. Merchandise Imports												
Food	..	..	..	..	..	..	226	206	148	127	..	
Other Agriculture	..	..	..	..	..	..	56	52	31	26	..	
Other Consumer Goods	..	..	..	..	..	..	83	106	71	100	..	
Other Intermed. Goods	..	..	..	..	..	..	460	337	251	252	..	
Others	..	..	..	..	..	..					..	
Total Imports CIF	..	..	..	..	..	..	825	701	501	505	598	

G. Terms of Trade (1980=100)	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	*US$ millions (at current prices)*					
	1984	*1985*	*1986*	*1987*	*1988*	*1989 e/*
Exports of Goods & NFS	131	146	119	174	214	226
Merchandise (FOB)	31	43	30	71	82	87
Non-Factor Services	100	103	89	103	132	140
Imports of Goods & NFS	931	830	618	660	901	1,102
Merchandise (FOB)	734	624	447	457	598	538
Non-Factor Services	197	206	171	203	303	564
Resource Balance	-800	-684	-499	-486	-687	-876
Net Factor Income	17	5	-6	2	-1	1
(interest per DRS)	19	24	27	29	31	40
Net Current Transfers	499	426	292	303	253	161
(workers remittances)	506	429	293	305	255	..
Cur Acct Bal Ex off trns	-284	-253	-213	-181	-435	-714
Long-Term Capital Inflow	178	110	165	206	324	..
Direct Investment	..	..	..	..	..	..
Net Official Transfers	31	32	31	52	53	43
Net LT Loans (DRS data)	204	125	127	148	171	245
Other LT Inflow (Net)	-57	-47	7	6	100	..
Total Other Items (net)	98	49	-20	-77	100	..
Net Short Term Capital	61	22	16	-89	52	..
Capital Flows N.E.I.	0	0	0	0	0	..
Errors and Omissions	37	27	-36	12	48	..
Changes in Net Reserves	8	94	62	54	12	..
Net Credit from the IMF	-1	0	-8	-7	..	..
Other Reserves Changes	9	95	70	61	12	..
As Share of GDP:						
Resource Balance	-71	-62	-51	-45	-60	-73
Interest Payments	2	2	3	3	3	3
Current Account Balance	-25	-23	-22	-17	-38	-60
Memorandum Items:						
Reserves excl. Gold (mil. US$)	249	187	138	97	80	..
Reserves incl. Gold (mil. US$)	262	200	154	117	97	..
Official X-Rate (LCUs/US$)	0.3454	0.3454	0.3454	0.3454	0.3454	0.3454
Index Real Eff. X-R Base 1980	..	..	..	..	..	..
GDP (millions of current US$)	1,130	1,108	983	1,091	1,147	1,194

I. Central Government Budget	Share of GDP (%) 1984	1985	1986	1987	1988	1989 e/	Growth Rates 1984	1985	1986	1987	1988	1989 e/
Current Receipts	..	..	..	..	..	..	..	..	..	..	..	..
Current Expenditures	42.1	45.7	47.8	47.4	49.6	50.5	..	6.6	-7.1	9.9	10.2	6.0
Current Budget Balance	..	..	..	..	..	..	..	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	33.6	28.7	27.9	28.7	40.2	43.8	..	-16.3	-13.7	13.9	47.5	13.4
Overall Deficit	-32.1	-37.3	-41.1	-30.8	-43.7	-45.3	..	14.0	-1.6	-17.3	48.8	8.2
Official Capital Grants	2.6	2.9	0.7	1.6	1.0	1.2	..	10.0	-77.3	148.0	-33.9	22.0
External Borrowing (net) a/	12.3	12.0	16.5	17.7	23.6	28.3	..	-4.0	22.0	18.9	39.9	25.2
Domestic Financing	17.3	22.4	24.1	11.5	19.0	15.8	..	26.5	-4.3	-47.1	73.9	-13.7

a/ including grants which are no

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1984	1985	1986	1987	1988	1989 p/	Debt Outstanding & Disbursed 1984	1985	1986	1987	1988 p/	1989 p/
Public & Publicly Guar. LT	204	125	127	148	171	245	1,254	1,419	1,585	1,812	1,970	2,219
Official Creditors	204	125	127	148	171	245	1,254	1,419	1,585	1,812	1,970	2,219
Multilateral	36	17	16	25	55	27	275	299	320	363	410	443
of which IBRD	0	0	0	0	0	0	0	0	0	0	0	0
of which IDA	19	14	19	11	20	15	101	119	143	164	179	192
Bilateral	168	108	111	123	116	219	980	1,120	1,265	1,449	1,560	1,776
Private Creditors	0	0	0	0	0	0	0	0	0	0	0	0
Suppliers	0	0	0	0	0	0	0	0	0	0	0	0
Financial Markets	0	0	0	0	0	0	0	0	0	0	0	0
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Private Non-guranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	204	125	127	148	171	245	1,254	1,419	1,585	1,812	1,970	2,219
IMF Credit	-3	-7	-16	-14	-7	-4	40	37	25	13	6	1
Net Short-Term Capital	0	25	4	0	0	2	96	121	125	118	118	120

Bank and IDA Ratios	1984	1985	1986	1987	1988	1989 p/
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	8.10	8.40	9.00	9.00	9.10	8.70
3. IBRD+IDA as % of Total	8.10	8.40	9.00	9.00	9.10	8.70
Share of LT Debt Service						
1. IBRD as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
2. IDA as % of Total	1.40	1.30	1.50	1.60	1.80	1.30
3. IBRD+IDA as % of Total	1.40	1.30	1.50	1.60	1.80	1.30
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	187.10	237.80	370.20	366.30	406.60	572.80
2. IMF Credit/Exports	5.90	6.20	5.80	2.63	1.20	0.30
3. Short-Term Debt/Exports	14.30	20.30	29.19	23.90	24.40	31.00
4. LT+IMF+ST DOD/Exports	207.30	264.30	405.19	392.83	432.20	604.10
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	110.97	128.07	161.24	166.05	171.72	185.84
2. IMF Credit/GDP	3.50	3.34	2.53	1.20	0.50	0.11
3. Short-Term Debt/GDP	8.50	10.92	12.72	10.82	10.29	10.05
4. LT+IMF+ST DOD/GDP	122.97	142.33	176.49	178.07	182.50	196.00
Debt Service /Exports						
1. Public & Guaranteed LT	10.50	16.40	26.60	22.50	22.00	39.80
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	10.50	16.40	26.60	22.50	22.00	39.80
4. IMF Repurchases+Serv. Chgs.	0.60	1.30	3.90	3.00	1.40	1.10
5. Interest only on ST Debt	1.50	1.60	1.90	1.80	2.00	2.30
6. Total (LT+IMF+ST Int.)	12.60	19.30	32.40	27.30	25.40	43.20

Notes:

The above figures on external debt are different from the ones used in the text as they include information from IEC sources which PDRY has not reported to the Bank. Some of the above figures are also used in the Balance of Payments table.

e = estimated data
p = preliminary data

Yugoslavia

The Socialist Federal Republic of Yugoslavia is a federation of six republics and two autonomous provinces (RAPs), with a population of 23.4 million and a per capita income of US$2,510 in 1988. Living standards vary widely between the richer northern republics (Slovenia and Croatia) and the poorer southern RAPs (especially Kosovo, Macedonia, and Montenegro). Responsibility for economic decision-making and implementation is divided between the federal government and the RAP authorities. The federal government has tightened its control over foreign borrowing and monetary policy, but has relaxed controls over prices and external trade; it is also responsible for providing the legal and administrative foundation of the economic system, including the banking and enterprise systems and policies for the faster development of the less-developed regions. Responsibility for taxation is shared between the federal and RAP governments. Sales taxes and custom duties are a federal responsibility, while the RAPs regulate the other elements of the tax system. RAP and communal authorities also have the right to set the prices of a few goods and services (e.g., heating and public transport). Investment decisions are decentralized and largely the prerogative of the investors, usually worker-managed enterprises. Investment by the federal, RAP, and communal governments (the public sector) represents a very small proportion of total investment. Income policy is conditioned by federal and/or RAP guidelines, although the decisions are made by the respective enterprises.

The Yugoslav economy is divided into social and private sectors. Although subject to change as reforms progress, assets in the social sector are subject to "self-management" by the firms' workers. In the private sector, self-employed proprietors work with their own assets and, until recently, could employ only a limited number of other workers. Nearly 90 percent of gross social product (GSP)[1] of Yugoslavia is produced in the social sector; the bulk of private sector activity is in agriculture and services. Mining and industry accounts for about 40 percent of GSP; agriculture, forestry, and fishing account for 10 percent. The trade and services sector produces almost 44 percent of GSP.

A new enterprise law, passed at the end of 1988, has significantly changed microeconomic decision making. Before, decision-making at all levels was governed by the principle of workers' self-management. Social compacts and self-management agreements were used to agree upon and regulate the participation of economic agents in the implementation of economic policies within a decentralized framework. Now, new forms of enterprises (i.e., privately owned, mixed and joint-foreign) are allowed and treated on an equal footing with the public sector, and can exercise freedom in decision-making and pursue the goal of profit maximization. Much more reliance is placed on responding to conventional macroeconomic instruments and market incentives.

Economic Developments, 1970-1987

The strong growth of the Yugoslav economy in the 1970s (GSP grew at an annual average rate of 6 percent between 1970 and 1980) was led by a rapid expansion in domestic demand. During 1970-80, fixed investment rose at an average annual rate of 8 percent, while consumption grew by 6 percent. However, insufficient attention was paid to efficiency and the need for improving the quality of investment. Rigidities in the markets for goods and factors of production, distorted relative prices and excessive protection for domestic industries resulted in deteriorating productivity of investment and a sharp rise in the incremental capital output ratio. In addition, excessive wage and personal income distributions coupled with low, even negative compensation to capital severely distorted relative factor prices.

1. GSP is equivalent to gross material product, i.e. total value added in goods, plus those services regarded as productive inputs. Gross domestic product (GDP) is roughly 7-8 percent higher than GSP.

The domestic demand-driven growth manifested itself in growing current account deficits which rose from less than 1 percent of GSP between 1965-69 to 6 percent by 1979. These deficits were financed through external borrowing, leading ultimately to a heavy debt burden in the 1980s. Medium- and long-term debt rose rapidly, from 16 percent of GSP in 1970 to 29 percent in 1980. The burden of debt service, the recession in OECD countries, and the increasing reluctance of international creditors to lend to Yugoslavia (following the debt problems in other countries), forced the government to attempt to reduce domestic demand and balance of payments deficits.

These efforts were supported, during 1980-85, by international institutions and debt restructuring agreements with governments and commercial banks. A strong compression of imports, combined with modest growth of exports, succeeded in eliminating the current account deficits in the balance of payments. By 1983, a small surplus (0.6 percent of GSP) had been achieved and the current account has been in surplus since then. However, this transformation of the external balance was achieved at a cost: GSP stagnated between 1980-85 and domestic inflation (as measured by the growth of the retail price index) rose from an average annual rate of 20 percent in the 1970s to an average of 50 percent between 1980-85.

In an effort to stimulate growth, economic policy was reversed in 1986. Earlier efforts to contain domestic demand and adjust the structure of the economy were weakened; there was significant relaxation in financial discipline, monetary, fiscal and incomes policies. Real wages rose sharply, public sector spending increased markedly in real terms, and monetary policy offered little resistance to rising inflationary pressures. In addition, price controls were reimposed, real interest rates became more negative, and the allocation of foreign exchange was even more tightly administered. Though the consequent increase in domestic demand stimulated GSP growth of 3 percent in 1986, there was an upsurge in inflation (88 percent) and a worsening in Yugoslavia's trade deficit and external payments position with the convertible currency area.

Significant backsliding in implementation of structural reforms also occurred. Efforts were made once again in 1987 to contain domestic demand and improve the current account of the balance of payments. Although exports rose significantly import volumes were reduced by more than 11 percent. The resulting current account surplus of US$1 billion was offset by net outflows of more than US$2.7 billion of short-term capital flows (including errors and omissions). The consequent depletion in reserves led Yugoslavia to request foreign commercial banks to accept a postponement of repayments of principal; as a result, about $347 million of payments falling due in 1987 were carried over into 1988. The domestic economy also fared poorly. GSP declined by 0.5 percent and inflation accelerated to 167 percent.

Developments since 1988

The extent of the economic crisis was acknowledged by the government in late 1987 when the first of several economic reform programs was initiated. Its anti-inflation program sought to reduce excess domestic demand and inflation but also sought to correct important structural weaknesses in the economy. The program failed to reduce inflation primarily because it could not prevent economic agents from circumventing the targets for money and credit growth which enabled excessive expansion of these variables and ultimately of aggregate demand. Some progress on structural reforms was achieved, however. For the first time, real interest rates were raised to positive levels and the financing of loss-making enterprises using inter-enterprise credits was reduced. This program formed the basis for a broader financial assistance package from Yugoslavia's external creditors. At the same time, the government initiated measures to strengthen market forces and to improve the efficiency of the economy. The foreign exchange allocation system was liberalized in May 1988; the dinar was devalued in real terms by 19.3 percent; and first steps were taken to liberalize the domestic pricing and the foreign trade regimes.

The approach since the introduction of this program in May 1988 has been to pursue fundamental reforms on a wider front in spite of a slow economic response in certain areas. Although the balance of payments and Yugoslavia's reserve position improved, industrial and agricultural output declined, and inflation accelerated to over 250 percent in 1988. The lack of success led to the resignation of the cabinet in December 1988, and the establishment of a new administration, under Mr. Markovic in March 1989. The pressure to reform did not abate, however. The new cabinet has substantially increased its authority over policy formulation and implementation, and has strengthened the country's reform effort in the enterprise, banking and labor and goods markets in order to stimulate the economy's supply response.

In December 1989, in a setting where inflation was running at over 50 percent per month, the government began to implement a comprehensive stabilization and adjustment program. Major elements of the program are: an overall currency reform which established a new convertible dinar and pegged it to the deutsche mark; a restrictive monetary policy; an increased fiscal effort to finance deficits in the large enterprises; tightened financial discipline through stricter enforcement of new accounting and financial operation standards; and a stable nominal exchange rate. Wage distributions and about 20 percent of prices were frozen temporarily for six months (to end-June 1990) while imports from the convertible currency areas increased.

Early indications show that the program is reducing inflation and restoring confidence, specifically in the country's currency and more generally in the economy and the government's new approach to economic management. Monthly inflation rates have declined steadily from about 64 percent in December 1989 to about 2.6 percent in March 1990, and close to nil in April 1990. The pegging of the exchange rate and the wage and price freezing measures are expected to be maintained at least through June 1990. A tight credit policy is being maintained and, as a result, the liquidity of the banks and enterprises has remained very constrained. Preliminary figures for the first quarter of 1990 indicate a drop in industrial output of about 7 percent, compared to the first quarter of 1989. This may be due to the tighter financial discipline being imposed on enterprises and to the continued tight credit policies.

Development Issues and the Government's Program

The government's comprehensive efforts to restructure its economy in the medium term, within the context of the macroeconomic stabilization program, should substantially increase the role of market forces and competitive pressures within the economy while initiating restructuring of the enterprise and financial sectors so that they are more sensitive to the newly emergent incentives. The challenge for macroeconomic management is to stop inflation while restoring sustainable growth and international creditworthiness in the medium- and long-term. Past experience has shown that reliance on aggregate demand management alone is insufficient to arrest imbalances and inflationary trends. Under the government's program, the scope of tight monetary policy includes not only dinar-denominated assets, but also foreign exchange deposits. Fiscal control is being applied more directly on total expenditures, including arrears of the public sector. Fiscal measures are being pursued to address the para-fiscal deficit which has been accumulated by the national bank due to subsidies channelled through banks to the enterprise sector.

In May 1988, the government began to change the foreign exchange allocation and trade regimes by establishing a daily interbank market to provide an appropriate institutional framework for the market determination of the exchange rate. Access to the market has been expanding: as part of the government's reform program introduced in December 1989, any and all individuals are able to purchase foreign exchange for imports. Domestic producers had been protected by a system of import controls consisting of quotas and other non-tariff barriers. Trade regime liberalizations carried out through December 1989 have left the quota regime as the only form of protection. This is to be reduced to 50 percent of the existing production coverage in four semi-annual phases, the first reduction having occurred in July 1989. Thereafter, further reductions will take place so as to reach a total of 50 percent by July 1991.

The lack of financial discipline, the concentrated structure of industry, the lack of competition from imports and other domestic suppliers, and poor mobility of goods and factors of production throughout different parts of the country combined to reduce the impact of market forces on enterprise pricing decisions. This has now been recognized by the authorities who want to reform the pricing regime so as to allow market forces to determine prices for an increasing number of goods and services in the economy. Consequently, since May 1988, there has been a progressive reduction of price controls so that now only 25 percent remains under administrative control (such as for infrastructure and public utilities). Most of these have been frozen under the anti-inflation program for a period of six months (to end-June 1990). Thereafter, they are expected to be set by the various producers using a set of formulae, including the Common Criteria methodology, which takes into account financial costs of production, prices in other European markets, prices of substitutes, or some combination of these.

Perhaps the most pernicious problem plaguing the Yugoslav economy has been the lack of financial discipline, particularly by the enterprises and their bankers. This, coupled with a lack of application of the law on Rehabilitation and Bankruptcy, has fostered continued enterprise losses, excessive wage payouts and economic inefficiency. Several steps have recently been taken to increase financial discipline. Major changes in the accounting system have been introduced to take account of the effects of inflation on enterprises' income statements and balance sheets and to provide a more realistic assessment of the enterprises' financial condition. A new law setting a modern accounting framework was passed in early 1989 and recently amended to strengthen this orientation. The new Law on Financial Operations defines sanctions against illiquidity and establishes the conditions triggering the application of the Law on Rehabilitation and Bankruptcy.

Now it is probable that a large number of enterprises will become subject to the application of the law during the reform. However, a small number of large enterprises which account for most of the financial losses in the economy may, if experience in other countries applies, continue to be exempt from application of the law. Under the recently amended reform program, these will be singled out for special federal and RAP government attention, their losses financed through fiscal means, and specific restructuring programs designed. Under the same program the banking system is to be restructured, so that the law on Rehabilitation and Bankruptcy can be effectively applied by the banks to the remaining enterprises, thus reintroducing financial discipline into the economy.

Reforms in the enterprise and banking sectors are critical in increasing supply responses and creating competitive markets for both inputs and outputs. To ensure a strong supply response from the economy, the government is complementing the measures outlined above with a series of fundamental reforms that would streamline economic decision-making at various levels and promote greater flexibility in the economy. The Enterprise Law, enacted in 1988, and its subsequent amendments permit the establishment of enterprises of private, joint as well as social ownership, and ensure equal treatment for all enterprises. Enterprises are given full autonomy in many areas of decision-making. Investors' rights in management will be proportional to their shares of investment.

Furthermore, a new Law on Social Capital, enacted in December 1989, enables management to maximize profits and the enterprises to become privately owned under certain circumstances. The government has identified small- and medium-scale enterprises as an important area for absorbing unemployment and increasing the supply response and will, therefore, formulate special measures to promote the growth of the sector. The new Law on Foreign Investment allows foreign investment in most areas of the economy in either joint or wholly foreign owned firms. To attract more foreign investment, restrictions on remittance of profits were reduced, and some temporary tax incentives at the RAP level are being considered.

Proposed financial sector reforms, announced in December 1989, will strengthen monetary policy and improve financial intermediation. The former will be accomplished by making the national bank a true central bank with greater autonomy to conduct monetary policy, and regulate and oversee commercial banks. Limits on lending by any one bank to an enterprise will be imposed to reduce exposure risk and moves to strengthen bank management introduced. The government aims to restructure the banking sector rapidly; in January 1990, provisionally licensed banks started to operate according to the new set of regulations. The process of restructuring commercial banks will be completed by the end of 1991, at which time all banks still operating satisfactorily will become fully licensed.

Restructuring the enterprise sector is considered by the government to be a crucial part of the effort to increase supply response. A sample of enterprises with major problems has been identified and will be analyzed so as to formulate programs for restructuring. The aim of these restructuring is to lower financing requirements by reducing costs and production inefficiencies with the eventual aim of making these enterprises competitive by international standards, or closing them. The government has also agreed to finance the largest loss makers through fiscal means as part of its anti-inflation program. It has budgeted $600 million in 1990, to be financed through new taxes, in order to prevent the financing of such deficits by banks which had led to spiraling inflation in the past. Restructuring institutions will be set up at both the federal and RAP levels to implement programs and to care for the public interest in the restructuring process. The new labor law, currently being drafted, is also important for enterprise reform because it is expected to reduce the management rights of workers, improve labor mobility and facilitate the exit of redundant workers from enterprises. In addition, the recent establishment of a money market, and the proposal to establish a capital market are important steps in improving capital mobility. Stock exchanges are expected to operate soon in Belgrade and Ljubljana.

Medium-Term Prospects

Over the medium term, the growth potential of the economy depends largely on the ability of the authorities to sustain and deepen the process of structural adjustment. Adequate support by Yugoslavia's external creditors is needed if the reform effort is to succeed. Provided Yugoslavia continues to implement the policies initiated this year GDP, after the expected drop in 1990 following the stabilization programs, could grow by an average of about 2.5 percent per year between 1991-93 and by 3 percent thereafter. This would be achieved essentially by ensuring an improvement in the efficiency of investment. This rate of growth would allow consumption per capita to rise to an average of about 1.6 percent per year between 1990-93, and slightly more rapidly thereafter. On the external side, the volume of merchandise exports to the convertible currency area is expected to grow more rapidly between 1990-94 before slowing down. Imports from the convertible currency area are expected to grow faster in 1990 and 1991 and thereafter grow in parallel to the export growth. Corresponding to this scenario, Yugoslavia's debt outstanding and disbursed (including IMF and short-term) will decrease slightly, from US$19.5 billion (34 percent of GDP) in 1988 until 1992 when it would begin to decline more rapidly. Under this scenario, Yugoslavia is to continue to run current account surpluses. Given the uncertainty surrounding CMEA reforms and the need to revive growth of domestic economy, the possibility to pursue a revised medium term framework cannot be excluded.

External Debt

Until the reform can be seen to be working, Yugoslavia's access to external capital inflows could be limited and the country may need to run current account surpluses so as to meet its external debt obligations and maintain a prudent level of international reserves. Debt outstanding and disbursed is projected to stagnate between 1989-92 as a consequence of a combination of reschedulings and some fresh money which would provide Yugoslavia with the financial resources it needs to maintain its reform program and service certain debt. Yugoslavia's debt could decline more rapidly thereafter as the economy would be able to generate adequate resources domestically to finance its growth. Total debt-service (including estimated reschedulings) would decline from an estimated 14.5 percent of convertible currency exports in 1989.

YUGOSLAVIA

Mid-1988 Population (mils.)	24
1988 Per Capita GNP in US$:	2,520

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates(% per annum) (from constant price data)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	6.2	6.5	0.4	-1.8	..
Net Indirect Taxes	7.3	6.4	8.5	7.5	10.2	..	..	..	..	..	..
Agriculture	21.6	16.6	10.9	12.8	11.7	..	3.2	1.8	1.2	-1.8	..
Industry	38.8	37.8	40.2	45.8	43.5	..	7.1	7.2	1.3	-1.8	..
(of which Manufacturing)	..	..	..	..	..	..	..	..	..	..	..
Services	32.3	39.1	40.4	34.0	34.6	..	6.4	6.7	1.4	-1.8	..
Resource Balance	0.3	-3.6	-4.2	2.9	4.7	..	..	..	..	..	..
Exports of GNFS	21.7	21.8	18.7	24.6	30.3	..	8.9	2.9	1.5	39.0	..
Imports of GNFS	21.4	25.4	22.9	21.7	25.6	..	11.4	3.2	-2.5	32.9	..
Total Expenditures	99.7	103.6	104.2	97.1	95.3	..	7.1	6.3	-0.8	-4.3	..
Total Consumption	69.7	75.2	64.4	76.1	75.9	..	7.7	5.9	-0.8	-3.3	..
Private Consumption	52.0	59.2	48.8	43.0	51.0	..	14.5	6.9	-2.0	-6.5	..
General Government	17.7	16.0	15.6	33.2	24.9	..	2.2	4.6	0.7	-1.8	..
Gross Domestic Investment	30.0	28.4	39.9	21.0	19.4	..	4.8	8.1	-0.4	-3.9	..
Fixed Investment	24.5	26.0	30.3	21.0	19.4	..	6.1	7.6	-2.0	66.4	..
Changes in Stocks	5.6	2.4	9.6	..	..	..	..	..	..	..	..
Gross Domestic Saving	30.3	24.8	35.6	23.9	24.1	..	-1.4	11.7	3.7	-17.9	..
Net Factor Income	-0.3	0.1	-1.1	-2.5	..	..	..	..	..	..	..
Net Current Transfers	0.0	0.0	0.0	0.0	..	..	..	..	..	..	..
Gross National Saving	30.0	24.9	34.5	21.4	..	..	-1.6	10.8	2.7	-23.2	..

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	19,602	30,154	47,327	49,145	48,280	..	6.2	6.5	0.4	-1.8	..
Capacity to Import	5,740	11,509	13,268	12,068	..	..	8.8	2.9	-0.9	..	..
Terms of Trade Adjustment	184	308	-91	0	..	..	..	..	..	..	..
Gross Domestic Income	19,786	30,462	47,235	49,145	..	..	6.2	6.4	0.6	..	..
Gross National Product	19,555	30,188	46,942	47,907	46,598	..	6.1	6.3	0.2	-2.7	..
Gross National Income	19,739	30,496	46,850	47,907	..	..	6.1	6.3	0.4	..	..

			(1987 = 100)				Inflation Rates (% p.a.)				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	3.5	23.9	45.3	100.0	294.1	..	11.7	17.9	69.7	194.1	..
Wholesale Prices (IFS 63)	4.4	30.6	51.5	100.0	303.0	..	7.4	13.9	65.2	203.0	..
Implicit GDP Deflator	3.8	26.6	50.0	100.0	..	..	10.9	18.6	67.5	..	..
Implicit Expenditures Defl.	3.7	27.0	49.8	100.0	..	..	10.5	18.6	58.9	..	..

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	0.9	0.9	0.7
Labor Force	..	..	..
Gross Natl. Income p.c.	5.1	5.4	-0.3
Private Consumption p.c.	13.4	5.9	-2.6
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.9	0.5	-6.2
Marginal Savings Rates:			
Gross National Saving	15.6	53.9	..
Gross Domestic Saving	14.7	55.5	..
ICOR (period averages):	..	5.9	118.0

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	56.8	44.5	32.3	..
Industry	26.3	30.4	33.3	..
Services	16.9	25.1	34.4	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
Fuel 1/	..	..	..	..	..	..	233	287	211	1,558	1,406	..
Food	..	..	..	..	..	..	853	850	842	1,015	1,073	..
Raw materials	..	..	..	..	..	..	..	..	..	578	703	..
Manufactures	..	..	..	..	..	..	5,997	7,701	8,113	8,616	9,572	..
Residual	..	..	..	..	..	..	1,894	1,784	1,917	35	26	..
Total Exports FOB	84.9	102.7	100.0	100.0	105.0	..	8,978	10,622	11,083	11,803	12,779	..
F. Merchandise Imports												
Food	..	..	..	..	..	..	964	355	786	729	840	..
Fuel and energy	..	..	..	..	..	..	5,468	5,053	4,440	4,488	4,732	..
Other Consumer Goods	..	..	..	..	..	..	1,582	1,493	1,336	1,210	1,466	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	7,050	5,335	6,535	6,583	6,291	..
Total Imports CIF	133.3	100.8	107.5	100.0	99.1	..	15,064	12,235	13,096	13,010	13,329	..

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	89.6	87.6	93.9	100.0	103.1	..
Merch. Imports Price Index	86.9	93.3	93.6	100.0	103.4	..
Merch. Terms of Trade	103.1	93.9	100.3	100.0	99.7	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	13,634	13,858	15,200	15,737	17,491	..
Merchandise (FOB)	9,093	10,622	11,084	11,425	12,779	..
Non-Factor Services	4,541	3,236	4,116	4,312	4,712	..
Imports of Goods & NFS	19,203	14,640	16,282	17,058	18,076	..
Merchandise (FOB)	13,992	11,210	11,786	11,343	12,000	..
Non-Factor Services	5,211	3,430	4,496	5,715	6,076	..
Resource Balance	-5,569	-782	-1,082	-1,321	-585	..
Net Factor Income	-1,098	-1,664	-1,749	-1,710	-1,797	..
(interest per DRS)	1,077	1,535	1,777	1,724	1,401	..
Net Current Transfers	4,354	3,281	3,933	4,281	4,871	..
(workers' remittances)	4,102	3,106	3,731	4,051	4,593	..
Curr. A/C Bal. before Off. Transf.	-2,313	835	1,102	1,250	2,489	..
Net Official Transfers	-4	-2	-2	-2	-2	..
Curr. A/C Bal. after Off. Transf.	-2,317	833	1,100	1,248	2,487	..
Long-Term Capital Inflow	1,954	78	-1,406	-892	-932	..
Direct Investment	..	0	..	0	0	..
Net LT Loans (DRS data)	2,209	-79	-886	-841	52	..
Other LT Inflow (Net)	-255	157	-520	-51	-984	..
Total Other Items (net)	51	-752	1,142	-118	398	..
Net Short Term Capital	774	-835	793	134	249	..
Capital Flows N.E.I.	0	0	0	0	0	..
Errors and Omissions	-723	83	349	-252	149	..
Changes in Net Reserves	312	-159	-836	-238	-1,953	..
Net Credit from the IMF	305	161	-39	-217	-542	..
Other Reserves Changes	8	-320	-797	-21	-1,412	..
As Share of GDP:						
Resource Balance	-7.6	-1.6	-1.6	-2.0	-1.1	..
Interest Payments	1.5	3.2	2.7	2.6	2.7	..
Current Account Balance	-3.2	1.8	1.7	1.9	4.8	..
Memorandum Items:						
Reserves excl. Gold (mil. US$)	1,384	1,095	1,460	698	2,298	4,136
Reserves incl. Gold (mil. US$)	2,478	1,704	2,189	1,602	3,074	4,899
Official X-Rate (LCUs/US$)	0.00	0.03	0.04	0.07	0.25	2.88
Index Real Eff. X-R Base 1980	100.00	71.32	76.23	77.62	64.91	..
GDP (millions of current US$)	73,081	47,613	66,144	66,682	51,579	..

I. Budget (Cons. Public Sector)	*Share of GDP (%)* 1980	1985	1986	1987	1988	1989	*Growth Rates* 1980-84	1986	1987	1988	1989
Receipts	9.1	24.5	23.9	26.4	31.6	..	30.9	79.3	116.0	119.7	..
Expenditures	9.3	23.6	23.1	25.8	31.6	..	28.5	80.7	117.6	125.7	..
Budget Balance	-0.3	1.0	0.8	0.7	-0.1	..	..	44.6	66.7	-115.6	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..

J. External Capital Flows, Debt and Debt Burden Ratios	*Net Disbursements (US$ millions)* 1980	1985	1986	1987	1988	1989	*Debt Outstanding & Disbursed (US$ millions)* 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	998	12	-860	-686	-112	-296	4,580	11,199	12,218	14,275	13,949	13,630
Official Creditors	373	-32	-76	-264	-258	-424	3,600	4,982	5,876	6,843	6,670	7,744
Multilateral	242	164	-15	-14	-265	-324	1,408	2,351	2,887	3,557	2,990	3,413
of which IBRD	216	134	-14	-127	-312	-244	1,359	2,268	2,788	3,311	2,720	2,395
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	131	-196	-61	-250	7	-100	2,192	2,631	2,989	3,285	3,680	4,331
Private Creditors	626	44	-785	-422	146	129	981	6,218	6,342	7,432	7,278	5,886
Suppliers	-8	0	0	0	0	0	18	0	0	0	0	0
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	1,211	-91	-25	-155	164	223	11,005	7,980	5,831	5,045	5,392	5,485
Total LT	2,209	-79	-886	-841	52	-73	15,585	19,179	18,049	19,320	19,341	19,115
IMF Credit	371	-68	-267	-505	-446	-579	760	2,108	2,069	1,852	1,310	686
Net Short-Term Capital	774	-835	793	134	249	..	2,140	990	1,365	1,300	1,033	1,008
Total incl. IMF & Net ST	3,354	-982	-360	-1,212	-145	..	18,486	22,277	21,482	22,472	21,684	20,809

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	8.72	11.83	15.45	17.14	14.06	12.53
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	8.72	11.83	15.45	17.14	14.06	12.53
Share of LT Debt Service						
1. IBRD as % of Total	5.07	11.86	12.94	17.24	23.47	16.96
2. IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00
3. IBRD+IDA as % of Total	5.07	11.86	12.94	17.24	23.47	16.96
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	86.90	111.60	94.42	96.88	86.83	77.47
2. IMF Credit/Exports	4.24	12.26	10.82	9.29	5.88	2.78
3. Short-Term Debt/Exports	11.93	5.76	7.14	6.52	4.64	4.09
4. LT+IMF+ST DOD/Exports	103.07	129.62	112.38	112.69	97.35	84.34
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	21.33	40.28	27.29	28.97	37.50	..
2. IMF Credit/GDP	1.04	4.43	3.13	2.78	2.54	..
3. Short-Term Debt/GDP	2.93	2.08	2.06	1.95	2.00	..
4. LT+IMF+ST DOD/GDP	25.29	46.79	32.48	33.70	42.04	..
Debt Service /Exports						
1. Public & Guaranteed LT	3.44	7.88	11.90	10.69	7.90	7.90
2. Private Non-guaranteed LT	15.84	7.85	5.45	4.93	6.35	5.72
3. Total Long-Term Debt Service	19.28	15.73	17.35	15.62	14.25	13.62
4. IMF Repurchases+Serv. Chgs.	0.57	3.13	3.23	3.33	3.37	2.41
5. Interest only on ST Debt	0.99	0.56	0.41	0.49	0.63	0.62
6. Total (LT+IMF+ST Int.)	20.83	19.62	21.00	19.76	19.44	16.65

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Zaire

Zaire has the third largest area and the fourth largest population in Africa. With about 35 million inhabitants, Zaire has a low population density estimated at 13 persons per square kilometer. Almost 40 percent of the population lives in urban areas. National accounts estimates are currently under review but preliminary indicators suggest that GNP per capita could be much higher than previously believed, i.e., US$260 in 1989 as compared to the previous estimate of US$166. Zaire has large underutilized economic potential, including an industrious and dynamic population. Natural resources include rain forest (second largest in the world and largest in Africa), fertile soils, and ample rainfall in most areas. Notwithstanding the low aggregate density of population, in some regions demographic growth is putting pressure on land with serious consequences for the ecology. The country has considerable mineral resources. Mining, mineral processing and petroleum extraction account for about 17 percent of GDP and three quarters of total export earnings. Copper, zinc and cobalt are being actively exploited. Further potential for development exists in gold, diamonds and petroleum.

After a difficult period of civil turmoil and severe economic decline following Independence (1960), the Zairian economy underwent three major cycles. First came the growth years of 1967-74, when growth averaged 4.4 percent a year in real terms (admittedly, from a depressed base), fueled by favorable terms of trade and substantial direct foreign investment. The current account balance was in steady surplus, inflation was low, and social indicators improved.

Second came the crisis years of 1974-82, when falling commodity prices and rapidly eroded investor confidence (brought about by the nationalization and zairianization of foreign-owned businesses) led to the decline of GDP at a rate of -1.5 percent a year on average, and persistent current account deficits. Expansionary public spending financed by money creation and heavy external borrowing (much of it on non-concessional terms and for nonviable projects) failed to stimulate growth, while fueling inflation and worsening the public finance and the balance of payments outlook.

Third came the adjustment years since 1983, when the government embarked on a structural adjustment program, albeit not without hesitations and lapses, and with mixed results. This report focuses on the adjustment years.

Response to Adjustment

The adjustment program initiated in late 1983 introduced important stabilization and reform measures in public resource management, price and trade liberalization, and other private sector incentives. As mentioned before, the pace and scope of reform varied.

From 1983 to mid-1986 Zaire undertook courageous reforms, including a 78 percent devaluation of its currency in SDR terms; substantive exchange, trade and price liberalization, including the decontrol of agricultural producer prices and interest rates; tighter public expenditure controls, including containment of wage increases; and measures to reduce the burden of parastatals on public finances.

From late 1986 to end-1988 the government discontinued the stabilization program and weakened its adjustment effort. Although it continued trade liberalization measures - through a first stage of the import tariff reform, the abolition of levies on manufactured exports, the simplification of export procedures, and tax incentives to private investment–failure to control public expenditure negated the impact of these reforms. Previous progress in exchange rate adjustment and price liberalization was partly reversed by letting the differential between official and parallel market exchange rates increase, and by failing to remove ex-post and administrative price controls.

In 1989 the government made a credible effort to strengthen fiscal mobilization, to maintain a flexible exchange rate, to bring controlled prices and interest rates closer to the market, and to improve the access of the private sector to foreign exchange. The government also approved several performance contracts regulating financial relations with state enterprises. The authorities were far less successful, however, in improving the allocation and control of public expenditure, including public investment.

A preliminary assessment for early 1990 indicates that the government continues to support improved resource mobilization and the introduction of economic incentives, particularly tariff reform and price decontrols. However, the adjustment program is off track, at least temporarily, as regards control of government expenditure and public investment, inflation and credit targets, avoidance of external and domestic arrears, and parastatal sector reform.

In the initial phase of the adjustment program, concurrent strong stabilization and adjustment measures showed positive results. Over the 1984-86 period, GDP growth averaged 3.3 percent a year, up from 0.7 percent in the preceding three years; copper mining regained profitability and a large part of the coffee, diamond and gold exports started to flow through officials channels, allowing export earnings to grow by 4.8 percent a year on average in current terms; helped by the good response of domestic production of foodstuffs and manufactured goods, imports contracted by 1.1 percent a year; government's net recourse to domestic credit averaged 1.1 percent of GDP, compared to 3 percent in the preceding three-year period; inflation decelerated from 76 percent to 24 percent; and the overall fiscal deficit (on a cash basis) averaged only 0.3 percent of GDP, compared to 1.9 percent during the 1981-83 period.

Equally swift was the negative response to the reversal of adjustment as of late 1986. In 1987-89, despite recovering copper prices and a significant increase in net external transfers, GDP growth averaged only 0.6 percent a year and per capita production contracted by -2.4 percent a year; the current account deficit averaged 7.6 percent of GDP (70 percent higher than in the preceding three-year period); and inflation soared. Economic performance reflected the uncertain economic conditions, the rapid deterioration of infrastructure and public services, and the deteriorating public finance situation.

Budgetary revenue other than from GECAMINES (the national copper mining company) declined to 6.4 percent of GDP on average between 1987-89, compared to 8.5 percent in 1984-86, while non-debt expenditure increased from 6.2 percent of GDP in 1984-86 to 10.3 percent in 1987-89. The overall fiscal deficit (on a cash basis, after rescheduling) of 0.3 percent of GDP in 1984-86 increased to 2.4 percent in 1987 and peaked at 6.3 percent in 1988. Government's foreign exchange expenditure increased sixfold in 1987-88, from US$92 million in 1986 to US$550 million in 1988, mostly for non-developmental purposes. Since most of the deficit was financed with domestic bank credit, money supply more than quadrupled between 1986-88, inflation (year-end) reached 106.5 percent in 1987 and 92.5 percent in 1988, and the availability of domestic credit and foreign exchange to the private sector sharply declined. The government's attempt in 1988 to control inflation through exchange rate, interest rate and price controls backfired, further depressing economic activity.

The effort to resume the stabilization program in 1989 and the favorable external factors yielded some positive financial results, but supply did not respond. Higher taxes and improved tax administration spurred non-GECAMINES budgetary revenue to 6.8 percent of GDP compared to only 5 percent in 1988, while expenditure was trimmed from 15.1 percent to 10.1 percent, partly due to lower than projected debt service payments. Both revenue and expenditure performance remained, however, well below that of the 1984-85 adjustment years. The improvement would have been more dramatic had the government controlled current expenditure: outlays for goods and services, in particular, were 50 percent higher than programmed, and the composition of expenditure remained heavily biased in favor of non-developmental purposes. Monetary creation was sharply curtailed, and inflation declined to 60 percent on an annual basis. However, private investment and growth remained sluggish. GDP is estimated to have declined by almost 2 percent in 1989, and per capita income contracted by about 5 percent.

The outlook for 1990 is poor. Government expenditure has so far followed the same pattern as last year. Deteriorating terms of trade, higher debt service obligations, an unforeseen 55 percent increase in the civil service wage bill, and declining marginal yields of tax recovery are combining into a dismal budgetary outlook for this year. Inflation is accelerating: consumer prices increased by 12.7 percent during the first trimester, compared to 4.4 percent in the last quarter of 1989. At this pace, annual inflation will reach at least 60 percent, against a 20 percent target envisaged under an uninterrupted program. The gap in the foreign exchange rate between the official and parallel markets is widening and has reached about 30 percent, as opposed to an objective of maximum 10 percent. GDP growth is projected, perhaps optimistically, at only 1.2 percent, and private per capita consumption is expected to decline by about -2.6 percent.

External Transfers

Donors have expressed support for Zaire's adjustment program, but initially aid was slow in materializing. From 1983 through 1987, balance of payments support came essentially from IMF drawings and debt rescheduling by bilateral donors. Both these sources were expensive, and their cost is now borne by Zaire's balance of payments.

Net transfers to Zaire (including debt relief and IMF transfers) were negative over the 1984-86 period, to the tune of US$ -75 million. This was one of the main reasons invoked by the government for discontinuing the adjustment program toward the end of 1986. The Bank sponsored a meeting of the Consultative Group in 1987, helping Zaire mobilize considerable external support. Net transfers increased sharply in 1987-1989, totalling US$1,092 million, of which US$326 million was IDA financing. Several other donors, notably the AfDB, the EC, the United States, and Japan also provided balance of payments support.

Constraints and Outlook

Despite partial and fragile progress in adjusting its economy, Zaire faces formidable development constraints. They include inefficient management of public resources; a heavy debt burden; inadequate transport and other basic infrastructure and public services; insufficient attention to human capital development and the environment; unattractive investment conditions; and, last but not least, overwhelming governance issues.

As mentioned above, the financial results in 1989 were encouraging. The government had agreed to cancel or postpone several large uneconomic projects, strengthen the management of GECAMINES' dividend policy, respect stricter ceilings on foreign exchange expenditure, avoid new financial commitments outside the agreed macroeconomic framework, achieve real interest rates for domestic credit to economy, and slow down inflation. However, headway made in some of these areas, was largely voided by inadequate public expenditure management.

The Medium-Term Startegy

The major themes of the policy framework remain valid, even if the interruption of the adjustment program has temporarily cast doubts on their feasibility and has made their timing uncertain. The *medium-term strategy* includes a government commitment to pursue and strengthen fiscal discipline and improve the quality of public expenditure, to continue the reform of the state enterprises, and to implement aggressively a program intended to reverse the long-standing neglect of human capital development. While recognizing its direct responsibility for economic stabilization, adequate basic infrastructure and public services, and helping finance human capital development, the government intended to allow the private sector to take the lead in productive investment.

The fiscal reform program aimed at a substantial improvement in tax collection, broadening of the tax base, provision of fiscal incentives to investment, and strengthening and simplification of tax administration. On the expenditure side, the government intended to continue and improve the screening of development expenditures and to extend it to recurrent expenditure. Priority tasks included the introduction of multiannual expenditure programming, increased transparency in executing expenditure, and generalized application of common law provisions. Particularly critical was the improvement of the quality of expenditure, both public investment and recurrent spending for operation and maintenance.

The reform of state-owned enterprises focussed on the disengagement of the state from production of tradeables (with the notable exception of copper mining), increased financial autonomy and responsibility of parastatals (together with economic pricing of their production, taxation of their procurement, and prompt payment of goods and services sold to the government), and increased transparency of their operations.

The decline of government spending in education and health has put an increasingly unsustainable burden on users and non-governmental organizations, and is largely responsible for the visible erosion of Zaire's human capital. The government appeared determined to reverse its long-standing disengagement from the social sectors, and attempt to improve the efficiency and equity of education and health through key policy adjustments, public expenditure reallocation and rationalization, social programs targeted at the most vulnerable groups, and strengthening of institutions (including the national capability to monitor the quality of life of the population by region and income levels). The 1990 budget took a first step to reverse the erosion of the government expenditure in the education and health sectors. It is too early to gauge its execution.

Economic and Financial Outlook

Given the disappointing results of 1989 and early 1990, the economic and financial outlook of Zaire over the next five years is bleak without an early resumption of the adjustment program, by end-1990 at the latest. With adjustment, growth could be expected to result mainly from private sector response to improved incentives and availability of credit and foreign exchange; import substitution in edible oils, meat, cotton, and grains; larger exports of crops such as coffee and rubber; increased efficiency and productivity of state-owned enterprises, notably GECAMINES (where a rehabilitation program is well under way); private investment in gold and diamond mining; and increased public investment in basic infrastructure, essential public services and human capital. Most public investment would come from parastatal. Aggregate exports are expected to weaken with lower copper prices, while imports would follow closely GDP growth in order to satisfy private sector and basic infrastructure needs.

The current account deficit will rise in 1990, decline temporarily in 1991-92 but probably rise in 1993.

ZAIRE

Mid-1988 Population (mils.)	34
1988 Per Capita GNP in US$:	260

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rates(% per annum) (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	3.9	-2.0	2.1	3.2	-2.0
Net Indirect Taxes	..	3.7	2.4	2.5	2.2	2.5	..	..	..	..	..
Agriculture	5.1	15.0	27.6	29.9	28.4	29.6	-1.7	0.9	2.6	2.0	2.8
Industry	7.6	39.5	33.3	27.0	28.2	32.1	9.3	-4.2	1.8	1.8	-5.7
(of which Manufacturing)	..	..	17.2	9.4	10.1	10.3	3.4	-5.4	2.5	9.2	-11.3
Services	87.4	45.4	39.2	43.1	43.4	38.3	4.3	-2.3	2.1	5.0	-3.0
Resource Balance	3.5	4.9	9.8	-3.0	-2.9	2.9	..	..	..	..	..
Exports of GNFS	7.2	15.5	18.9	24.2	24.1	27.2	10.6	0.3	3.4	-3.0	-3.2
Imports of GNFS	3.7	10.6	9.1	27.2	27.0	24.3	13.2	-1.5	4.8	15.9	-15.0
Total Expenditures	96.5	95.1	90.2	103.0	102.9	97.1	4.3	-2.4	2.5	8.0	-5.4
Total Consumption	94.0	84.4	83.8	90.0	90.2	84.3	3.9	-3.0	2.4	7.0	-5.7
Private Consumption	91.6	73.3	74.9	78.4	76.6	74.8	3.6	-2.8	2.1	5.0	-3.9
General Government	2.4	11.1	8.9	11.5	13.7	9.5	5.8	-4.7	4.3	20.6	-16.3
Gross Domestic Investment	2.5	10.7	6.4	13.0	12.7	12.8	10.1	3.8	3.3	14.9	-3.6
Fixed Investment	2.5	9.2	6.4	13.0	12.7	12.8	10.2	4.0	4.4	11.9	-2.7
Changes in Stocks	..	1.5	0.0	0.0	0.0	0.0	..	..	..	..	..
Gross Domestic Saving	6.0	15.6	16.2	10.0	9.8	15.7	3.2	4.0	-13.1	14.9	52.4
Net Factor Income	0.1	-2.2	-1.8	-5.8	-5.1	-4.7	..	..	..	..	..
Net Current Transfers	0.0	-1.4	-0.5	-0.9	-0.7	-0.7	..	..	..	..	..
Gross National Saving	6.1	12.0	13.8	3.3	4.0	10.3	-1.2	11.0	-22.3	59.2	122.1

In billions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product	608	840	763	877	906	888	3.9	-2.0	2.1	3.2	-2.0
Capacity to Import	143	276	372	212	246	263	7.7	0.5	-5.9	16.0	6.6
Terms of Trade Adjustment	59	104	195	0	40	63	..	..	..	..	..
Gross Domestic Income	667	943	957	877	946	951	3.8	-1.6	-0.8	7.8	0.5
Gross National Product	608	820	747	826	857	843	3.6	-1.7	1.6	3.7	-1.7
Gross National Income	668	923	942	826	897	906	3.5	-1.3	-1.4	8.6	0.9

	(1987 = 100)						*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (end-period)	6.1	37.5	61.7	100.0	192.5	308.0	..	..	54.0	92.5	60.0
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	5.4	42.6	56.8	100.0	200.5	412.9	-3.4	42.1	55.3	100.5	105.9
Implicit Expenditures Defl.	4.9	39.0	55.0	100.0	191.5	385.6	-3.9	42.2	57.1	91.5	101.4

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	2.3	3.3	3.1
Labor Force	..	..	..
Gross Natl. Income p.c.	1.2	-4.4	-4.3
Private Consumption p.c.	1.3	-5.9	-1.0
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	3.4	0.8	2.2
Marginal Savings Rates:			
Gross National Saving	26.8	-19.9	-117.9
Gross Domestic Saving	36.6	6.2	-44.1
ICOR (period averages):	..	-5.9	6.1

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	82.0	76.8	71.5	..
Industry	9.2	11.1	12.9	..
Services	8.8	12.1	15.6	..
Total	100.0	100.0	100.0	100.0

Notes:

a/ Under review.

E. Merchandise Exports	Volume Index 1987=100 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X. Copper	..	..	..	..	..	..	1,030	712	695	843	1,208	1,245
X. Diamonds	..	..	..	..	..	..	377	199	229	185	269	251
X. Fuel	..	..	..	..	..	..	225	301	147	192	144	160
X. Coffee	..	..	..	..	..	..	163	154	437	169	94	125
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	475	485	343	337	465	409
Total Exports FOB	81.3	95.0	114.9	100.0	94.0	90.5	2,270	1,850	1,850	1,727	2,179	2,190
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	..	..	..
Fuel and energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermed. Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports CIF	112.0	110.1	103.6	100.0	117.2	120.9	1,810	1,514	1,789	2,134	2,729	2,698

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	161.0	112.6	92.8	100.0	133.8	139.9
Merch. Imports Price Index	97.7	81.5	89.3	100.0	104.7	105.4
Merch. Terms of Trade	164.9	138.0	103.9	100.0	127.8	132.8

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	2,371	1,988	1,995	1,943	2,329	2,345
Merchandise (FOB)	2,269	1,861	1,839	1,727	2,179	2,190
Non-Factor Services	103	127	156	215	150	155
Imports of Goods & NFS	2,353	2,059	2,092	2,292	2,751	2,726
Merchandise (FOB)	1,519	1,187	1,280	1,395	1,644	1,895
Non-Factor Services	834	872	812	897	1,108	831
Resource Balance	18	-71	-97	-350	-423	-381
Net Factor Income	-498	-364	-424	-454	-496	-454
(interest per DRS)	205	217	120	118	98	109
Net Current Transfers	-79	-55	-62	-70	-67	-64
(workers' remittances)	316	27	0	..	0	..
Curr. A/C Bal. before Off. Transf.	-559	-490	-583	-873	-986	-900
Net Official Transfers	267	199	184	211	195	257
Curr. A/C Bal. after Off. Transf.	-292	-291	-399	-663	-791	-643
Long-Term Capital Inflow	1,614	-297	-211	-65	8	-46
Direct Investment	6	6	5	10	11	12
Net LT Loans (DRS data)	265	48	145	310	261	265
Other LT Inflow (Net)	1,343	-351	-360	-385	-264	-324
Total Other Items (net)	-1,287	552	589	813	928	768
Net Short Term Capital	-1,209	367	511	697	921	650
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-78	185	77	116	7	118
Changes in Net Reserves	-35	36	21	-86	-145	-61
Net Credit from the IMF	-18	66	-15	4	-241	9
Other Reserves Changes	-17	-31	36	-90	96	-70
As Share of GDP:						
Resource Balance	0.1	-1.0	-1.2	-4.5	-4.4	-4.0
Interest Payments	1.4	3.0	1.4	1.5	1.0	1.1
Current Account Balance	-3.8	-6.9	-7.0	-11.2	-10.2	-9.4
Memorandum Items:						
Reserves excl. Gold (mil. US$)	204	190	269	181	187	195
Reserves incl. Gold (mil. US$)	380	335	451	417	372	282
Official X-Rate (LCUs/US$)	2.80	49.87	59.63	112.40	187.07	381.45
Index Real Eff. X-R Base 1980	100.00	41.28	41.22	35.69	36.80	33.89
GDP (millions of current US$)	14,758	7,150	8,304	7,805	9,706	9,607

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	9.0	11.6	9.1	9.9	8.8	10.5	62.4	9.5	91.9	84.5	140.9
Current Expenditures	8.4	10.6	10.1	11.8	14.6	9.5	65.9	32.2	108.4	156.4	31.4
Current Budget Balance	0.7	1.0	-0.9	-1.9	-5.8	1.0	-14.3	-222.2	273.9	526.3	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	0.6	0.3	0.2	0.5	0.5	0.5	42.7	8.7	302.1	101.0	131.5
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	0.1	0.8	-1.1	-2.4	-6.3	0.5	-141.4	-302.7	279.2	441.9	..
Official Capital Grants	0.5			0.4	1.7	0.0	-73.0	..	..	741.4	..
External Borrowing (net)	-1.2	-1.4	-1.0	0.8	-0.1	0.3	51.6	1.5	-234.6	-128.9	-679.1
Domestic Non-Bank Financing		0.2	0.1	0.1	0.1	0.1	..	-37.7	191.5	31.1	187.6
Domestic Bank Financing	0.6	0.4	2.0	1.1	4.6	0.4	86.0	595.2	-6.2	788.1	-81.4

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	265	48	145	310	261	265	4,161	4,773	5,729	7,045	7,013	7,222
Official Creditors	105	82	181	313	267	275	2,595	4,018	4,973	6,313	6,313	6,394
Multilateral	56	83	146	269	229	232	333	608	790	1,182	1,349	1,551
of which IBRD	17	-8	-11	-8	-8	-4	87	46	46	50	37	36
of which IDA	20	54	81	214	125	136	159	372	471	738	837	962
Bilateral	49	-1	35	44	38	43	2,262	3,410	4,183	5,131	4,964	4,843
Private Creditors	159	-34	-36	-3	-6	-9	1,567	755	756	732	700	828
Suppliers	76	-13	-19	2	-5	-12	342	124	147	153	140	124
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	265	48	145	310	261	265	4,161	4,773	5,729	7,045	7,013	7,222
IMF Credit	54	47	-42	-24	-131	-136	373	808	856	967	786	628
Net Short-Term Capital	-1,209	367	511	697	921	650	296	405	414	560	675	532
Total incl. IMF & Net ST	-890	462	614	983	1,051	780	4,831	5,986	6,999	8,571	8,474	8,382

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	2.10	0.97	0.81	0.71	0.52	0.50
2. IDA as % of Total	3.82	7.78	8.22	10.48	11.93	13.32
3. IBRD+IDA as % of Total	5.92	8.75	9.03	11.19	12.45	13.82
Share of LT Debt Service						
1. IBRD as % of Total	3.58	3.75	6.72	11.46	13.24	13.05
2. IDA as % of Total	0.23	1.32	1.96	4.82	5.65	4.60
3. IBRD+IDA as % of Total	3.81	5.08	8.69	16.28	18.88	17.65
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	153.00	233.70	282.55	354.37	296.53	303.01
2. IMF Credit/Exports	13.73	39.54	42.21	48.62	33.23	26.37
3. Short-Term Debt/Exports	10.88	19.83	20.42	28.17	28.56	22.31
4. LT+IMF+ST DOD/Exports	177.62	293.06	345.17	431.15	358.33	351.68
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	28.20	66.75	68.99	90.25	72.26	75.17
2. IMF Credit/GDP	2.53	11.29	10.31	12.38	8.10	6.54
3. Short-Term Debt/GDP	2.01	5.66	4.99	7.17	6.96	5.53
4. LT+IMF+ST DOD/GDP	32.73	83.71	84.28	109.81	87.31	87.25
Debt Service /Exports						
1. Public & Guaranteed LT	14.56	15.53	11.30	9.08	6.96	7.85
2. Private Non-guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	14.56	15.53	11.30	9.08	6.96	7.85
4. IMF Repurchases+Serv. Chgs.	3.70	8.55	9.60	12.43	7.63	16.43
5. Interest only on ST Debt	1.67	1.14	1.07	1.41	1.44	2.56
6. Total (LT+IMF+ST Int.)	19.93	25.22	21.96	22.93	16.03	30.32

Zambia

Zambia's economy has been dominated since independence by extreme dependence on a single commodity, copper, which contributes 85 percent of the country's export earnings. Relying on revenues provided by the commodity boom of the early 1970s, Zambia established an economic structure based on extensive state ownership, together with government intervention and controls over almost all aspects of the economy. The policy framework led to a high degree of capital and import dependence in agriculture and industry, encouraged consumption at the expense of saving and investment, and discriminated against the development of the indigenous resource base, particularly agriculture. Consumption was heavily import-intensive as well and consumer subsidies became widespread. This policy regime was maintained and intensified following the collapse of copper prices in 1975, with the government resorting to heavy foreign borrowing in order to stave off the effects of the deepening recession. As a result, there occurred a large build-up of external debt, which now burdens the economy.

The deterioration in the economy had reached crisis proportions by December 1982, when trade credits to the country were suspended. Short- and medium-term commercial credits had long since dried up due to mounting arrears and late payments. Attempts were made in the 1982-88 period to restructure the economy. These were largely ineffective, however, due to weak implementation capacity and lack of consensus in Zambia over the need for adjustment and over what type of reform measures were required. In any event, there was no alleviation of the structural problems facing the economy (i.e., no growth in non-traditional exports, no lessening of capital and import intensity, etc.), no improvement in the country's growth prospects. In 1987 the government reverted to the earlier policies of extensive controls and regulations. Subsequently, macroeconomic instability increased, with inflation accelerating sharply despite price controls and fixed exchange and interest rates. Moreover, shortages of basic consumer goods became endemic, as did the smuggling of goods to neighboring countries. Parallel markets increasingly dominated many spheres of economic activity. By 1988, per capita incomes, at $290, had fallen to one-half the level of the mid-1970.

The Current Economic Situation

Faced with a seriously deteriorating economic situation, the government decided in late 1988 that policy changes were required. Some initial measures were taken at that time, including a 25 percent devaluation of the kwacha and increases in interest rates and reserve requirements to stem the growth in the money supply. These measures were followed in January 1989 by a large increase in maize meal prices, with a view to reducing subsidies. A coupon system was introduced concurrently to target most of the remaining maize subsidy to vulnerable groups. At the same time, the government initiated discussions and subsequently agreed with the Bank and IMF, on a revised adjustment program.

The government has taken a number of significant actions to implement its agreed program. In June 1989, all consumer prices were decontrolled, with the exception of maize meal; maize meal prices themselves were increased again, bringing the overall increase since December 1988 to sixfold; the kwacha was devalued by 49 percent and a crawling rate mechanism was introduced, with subsequent devaluation reaching 100 percent by year-end 1989; and road haulage charges were deregulated. A comprehensive monetary package was introduced in July, including a 10-point increase in interest rates and higher reserve ratios. At the same time, complementary actions were taken to absorb some of the excess liquidity in the economy, including a requirement that the parastatals pay into the Bank of Zambia the counterpart of their external debt service payments and the issuance of a new government bond with attractive interest rates. In addition, the currency depreciations are being passed through to prices, e.g., on petroleum products, as they occur.

On February 19, 1990, a dual exchange rate system was adopted through the establishment of a second foreign exchange "window," with transactions in this window taking place at the estimated market-clearing exchange rate (K 40 per US$1). This rate is to be adjusted administratively as needed to ensure that it remains a market-clearing rate. Receipts from non-traditional exports, "casual" sales to the Bank of Zambia, and donor assistance is to provide the foreign exchange cover. This second window is operated on an Open General License (OGL) basis and all applicants are guaranteed foreign exchange. The window was started conservatively with a limited number of eligible import categories, but is to be expanded rapidly by the incorporation of additional categories. In order to ensure access to foreign exchange, demand is to be managed through adjustment to the estimated market-clearing rate and through the rate at which categories are added. Along with an acceleration in the crawl of the official exchange rate, the expansion of this window will facilitate the eventual unification of the country's exchange system under a single market-clearing rate. Achieving this objective is key to the structural transformation of the economy.

Implementation of the second window has not proceeded as rapidly as expected, however. The demand for foreign exchange has fallen considerably short of supply, notwithstanding the fact that practically no donor resources have become available. The reasons for this appear to be primarily the tight monetary situation in the country and the importers' access to the first "window" (FEMAC). Although importers are guaranteed foreign exchange in the second window, they prefer to try first through FEMAC, where, if successful, they pay only the official rate (currently K 27/US$1). The Bank of Zambia has been slow to add import categories to the OGL window in the interest of avoiding excess demand, however, more rapid expansion of the OGL window is expected in the near future.

Agriculture. All producer price controls have been removed, except for maize, and private traders are free to engage in marketing and distribution. Floor producer prices are being retained to provide a safety net for smallholders and road haulage rates (except for maize and fertilizer) have been decontrolled. Budget expenditures for research and extension and other public services to agriculture were increased in the 1990 budget and are to be increased further in subsequent budgets until they have reached adequate levels. A priority public investment program has been developed for the sector, with emphases on research and extension, and the provision of credit, input supply, marketing services and rural transportation. Also, a good beginning has been made toward the elimination of consumer subsidies on maize (except that which is targeted to the poorer segments of society) and fertilizer.

There remain, however, several problems that need to be addressed. The growing of maize is overemphasized to the detriment of other crops, including export crops, and the geographical pattern of maize (and other crops as a result) production has been distorted by the maize pricing system. Consequently, productivity and output are less than optimum. The marketing system for maize is highly inefficient, with a large part of the crop not collected from farmers and distributed in most years. Storage facilities are inadequate and wastage is high. The agricultural credit system is also inefficient and substantial financial losses occur each year. Moreover, inputs (fertilizer) are often not available on time. Lastly, agricultural exports have not shown any significant growth because of the lack of incentives through the exchange rate or agricultural policy.

Industry. Zambia's relatively large (some 25 percent of GDP) and well-diversified manufacturing sector is about evenly divided between parastatal and private subsectors. Past policies favored high capital and import intensity of production, the use of imported inputs rather than domestic raw materials, import substitution over production for export, and provided high protection from external competition. When foreign exchange shortages became pronounced during the early 1980s, capacity utilization fell sharply and many firms suffered substantial financial losses. Although the recent high copper prices have increased the supply of foreign exchange, the sector is still operating at substantial under-capacity and little progress has been made in its restructuring.

The government's industrial strategy envisages an enhanced role for the private sector and incentives for domestic and foreign investment, including joint ventures with parastatals and domestic private firms. New export activities will be encouraged by the more realistic exchange rate, as will the shift from imported to domestic inputs. The achievement of positive real interest rates will discourage the use of capital and imports, and improve the allocation of resources. Price decontrol, including the more pervasive indirect controls exercised by the Prices and Incomes Commission (PIC), has given firms more leeway in managing their operations. Import liberalization should provide competition, although its impact will be limited in the short run.

Additional significant measures are planned. The tariff structure is being reviewed with the view to removing excessive protection. The investment code is to be revised to remove any disincentives to domestic and foreign investment, and programs to promote small-scale enterprises and informal sector activities are being developed. Initial work has already begun on a parastatal reform program. The relationship between ZIMCO, the parastatal holding company, and its subsidiaries will be examined to ensure that these relationships do not impair the effective operations of the subsidiaries and an indepth economic and financial review of 15 to 20 of the poorer performing parastatal firms will be undertaken. Recommendations on ways to improve the performance of these firms will be made, including possible financial and/or organizational restructuring, managerial changes, taking on joint venture partners, etc. In those cases where the firm is economically unviable, actions to divest or close down the operation either partially or fully would be expected. Given the foreign exchange shortage, the parastatals are giving highest priority in their investment program to rehabilitation and maintenance of existing assets, rather than to expansion or the creation of new enterprises.

Copper. Zambia's copper industry is in its waning years. Most of the major ore deposits are near exhaustion and are increasingly difficult and costly to mine. Major investments are needed just to maintain production at current levels. Although the country has been well prospected and no additional ore bodies of economically significant size have been found, the geological data is quite old and further review may be required to determine whether or not there may be some deposits that with modern technology could be exploited economically. Because of the exhaustion of reserves, Zambia's copper output is expected to fall to less than one-half of current production levels around 1998-2000, and to decline steadily thereafter.

In the next few years, copper production is expected to be constrained by a number of factors, including (1) inadequate stripping and overburden removal at the open pit mine, (2) lack of mine development in the underground operations, (3) transport bottlenecks both within the country and the region, and (4) shortages of technical and middle level managerial staff. These constraints are not easily resolved and are expected to weigh heavily on production in coming years. If unchecked, they could cause production to fall sharply even in the near term with serious adverse effects on the country's foreign exchange position.

Zambia's average cost of producing copper is high, exceeding US$0.80 per pound at current dollars. Moreover, Zambian costs are likely to rise rapidly as production slows and mining becomes more difficult, e.g., having to mine deeper underground. To address the problem of cost competitiveness, the mining company (ZCCM) is intensifying its efforts to control costs and to tackle the production and transport bottlenecks. It is also reviewing its five-year production and investment program with the view to increasing efficiency and minimizing the cost of investments. The company is preparing a detailed medium-term phasedown program to minimize the impact on the economy of the fall-off in production at the end of the decade. Non-copper mining activities, primarily precious stones, which seem to have good potential in Zambia, are being encouraged.

Transport. Budget and foreign exchange allocations for maintenance and rehabilitation of transport systems have been inadequate for several years running, and deteriorated state of the roads and railway is exacting a heavy cost on the economy. Trucking fleets, especially those of private operators, have deteriorated due to inadequate allocations of foreign exchange for spare parts, etc. Other sectors of the economy (agriculture, in the movement of produce; and mining, in the shipment of copper exports) have been particularly affected by this state of affairs. Some corrective actions are being taken. Allocations for maintenance and rehabilitation of transport infrastructure were increased in the 1990 budget and further real increases are planned for future budgets. In addition, the public investment program gives high priority to rehabilitation of the road and railway networks, with new constructions largely deferred.

Social Sectors. The deteriorating economic situation has taken a heavy toll on living standards in the past several years. Key indicators of social development (health and nutrition, education levels, etc.) have deteriorated. The availability and quality of social services provided by government have declined dramatically during this period and because of contracting incomes and employment, together with high inflation, the ability of families to purchase such services has also declined substantially. A first step at addressing this problem was taken in the 1990 budget which provides increased allocations to the social sectors, with the view to increasing access to health and education services. In addition, a comprehensive Social Action Program has been prepared with the objectives of making a major effort to improve access to social services and generate employment opportunities to protect vulnerable groups from the worst effects of adjustment.

Economic and Social Impact

It is, of course, too early to judge the full impact of the current adjustment program on the economy. It takes considerable time for non-traditional exports to respond to the new incentive structure, especially in agriculture, and for firms or individuals to redirect their spending to domestically produced goods. There is also the problem of availability of goods produced locally; these also need time to respond to increased incentives. In agriculture, there is the overriding influence of the weather which can, and does, cause large swings in production. Over the longer term, however, the policy framework, together with the increased availability of inputs due to external assistance programs, is expected to bring about the needed structural reforms.

There has been some progress already on the macroeconomic side. The budget deficit in 1989 was less than had been targeted and a further significant reduction is expected for the current year. As a result of lower government borrowing from the banking system and additional monetary measures to soak up liquidity and contain money supply growth, inflation slowed considerably, to 45 percent on an annualized basis in the month of December 1989 and 60 percent on a similar basis for the last quarter of 1989. However, inflation began to rise again in early 1990, due to a resurgence in monetary growth. The Bank of Zambia has taken further monetary and fiscal actions, which are expected to lower monetary growth and the inflation rate.

Growth Prospects

Because of the absorptive capacity, managerial and other constraints on the economy, growth that just offsets the increase in population is about the best that can be expected during what will be a period of structural transformation for the economy. It is expected that growth will accelerate so that positive per capita gains will be experienced by 1992-93. Most of the growth will have to come from the agricultural, industrial and service sectors, since no increases in output are expected in the mining sector.

Non-traditional exports, which are key to the structural transformation of the economy, are expected to grow more rapidly during 1990-93, although these exports are starting from a low base and the dollar increases are not large. Most of this increase is expected to come from the agricultural sector. With copper export receipts expected to decline in the near future, it is essential that every effort be made to stimulate non-traditional exports. The export licensing scheme is being liberalized to prevent its being an obstacle to export growth.

The impact of the adjustment program on the poor, the social costs of adjustment, are to be alleviated through the maize coupon scheme, which provides a subsidy to low income consumers of maize, and through a social action program, which will provide, inter alia, improved health and nutrition services, community-based public works schemes providing employment and incomes, and improved access to education services. In addition, the restructuring of government spending under the public expenditure reviews will allocate sufficient amounts of expenditures to these sectors and activities to provide a basic level of services to all Zambians. While these programs may not fully remove the burden from the poor, they should be of considerable benefit. There is no doubt that there will be a cost to the adjustment program: the devaluation and other adjustment measures will prevent inflation from being fully eliminated and the structural changes will result in increased unemployment, although this is expected to be transitory.

External Debt

The country's total external debt, including obligations to the IMF and short-term debt, is approximately US$7.2 billion, which is twice the GDP at the current exchange rate and much more than that, at a more realistic, or equilibrium rate. Arrears on this debt are substantial. Zambia cannot afford this level of debt service and extraordinary debt relief will be required, including the rescheduling of arrears for several years ahead.

ZAMBIA

Mid-1988 Population (mils.)	7
1988 Per Capita GNP in US$:	300

	A. Shares of Gross Domestic Product (*from current price data*)						B. Growth Rates(% per annum) (*from constant price data*)				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	2.4	0.3	0.6	6.3	0.1
Net Indirect Taxes	9.6	9.6	7.2	11.9	13.0	13.0	..	..	..	..	..
Agriculture	14.3	11.3	14.2	11.2	14.2	12.0	2.0	1.6	4.1	20.5	0.0
Industry	53.8	53.1	41.3	44.2	43.0	44.0	2.7	-0.3	0.3	6.5	5.0
(of which Manufacturing)	6.3	12.3	18.5	27.6	24.8	29.0	9.8	0.5	2.5	15.0	1.5
Services	31.9	35.6	44.5	44.5	42.8	31.0	2.3	0.4	0.0	1.7	1.5
Resource Balance	14.6	15.8	-4.0	1.2	3.7	4.3	..	..	..	..	..
Exports of GNFS	49.2	49.0	41.4	41.6	38.6	42.8	2.5	-0.1	-1.4	-10.0	12.0
Imports of GNFS	34.7	33.2	45.4	40.4	34.9	38.5	3.4	-8.5	-1.1	3.0	12.2
Total Expenditures	85.4	84.2	104.0	101.8	103.2	104.4	3.0	-4.1	0.5	15.1	-2.7
Total Consumption	60.0	55.0	80.7	86.1	87.0	87.8	1.1	1.9	1.7	12.4	1.5
Private Consumption	44.9	33.3	55.2	62.8	69.0	68.0	-1.9	3.1	5.3	18.9	..
General Government	15.1	21.7	25.5	23.3	18.0	19.0	10.4	-0.6	-5.4	-11.8	..
Gross Domestic Investment	25.4	29.2	23.3	15.7	16.2	16.6	6.2	-16.5	-4.5	11.4	7.0
Fixed Investment	..	26.0	18.2	12.5	14.2	13.1	..	-15.4	-8.4	7.0	..
Changes in Stocks	..	2.9	5.1	3.2	2.0	3.5	..	..	..	..	..
Gross Domestic Saving	40.0	45.0	19.3	13.9	13.0	12.2	3.2	-18.8	5.0	43.0	28.0
Net Factor Income	-6.0	-7.9	-7.5	-15.6	-10.1	-7.5	..	..	..	..	..
Net Current Transfers	0.0	-5.9	-4.7	-0.9	-0.6	-0.6	..	..	..	..	..
Gross National Saving	34.0	31.2	7.1	-2.7	2.3	3.9	1.3	-26.3	..	-2.3	..

In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	15,245	17,818	18,788	19,632	20,869	21,078	2.4	0.3	0.6	6.3	0.1
Capacity to Import	16,184	22,466	9,478	8,171	9,472	11,663	2.1	-11.2	2.9	15.9	23.1
Terms of Trade Adjustment	7,906	13,842	1,021	0	2,106	3,475	..	..	..	..	..
Gross Domestic Income	23,151	31,660	19,809	19,632	22,975	24,553	2.2	-6.7	2.1	17.0	6.9
Gross National Product	14,055	15,775	17,372	18,521	19,865	19,829	2.5	0.7	-0.9	7.3	-0.2
Gross National Income	21,960	29,617	18,393	18,521	21,971	23,304	2.2	-6.9	0.7	18.6	6.1

	(1987 = 100)						*Inflation Rates (% p.a.)*				
C. Price Indices	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	18.2	46.1	69.9	100.0	154.3	346.6	5.6	14.4	30.6	54.3	124.6
Wholesale Prices (IFS 63)	9.9	25.1	54.2	100.0	..	..	3.5	14.4	38.5	..	..
Implicit GDP Deflator	16.3	37.1	67.7	100.0	157.7	331.3	5.7	9.0	33.8	57.7	110.1
Implicit Expenditures Defl.	15.4	37.9	67.0	100.0	144.2	306.4	5.7	15.5	32.1	44.2	112.5

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.0	3.1	3.6
Labor Force	..	..	..
Gross Natl. Income p.c.	-0.7	-9.6	-2.8
Private Consumption p.c.	-5.6	0.0	1.6
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	1.4	-50.2	-1.9
Marginal Savings Rates:			
Gross National Saving	25.8	108.7	-23.3
Gross Domestic Saving	61.8	117.0	-14.9
ICOR (period averages):	..	64.8	13.7

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	78.7	75.5	73.1	..
Industry	8.0	9.0	9.8	..
Services	13.3	15.5	17.1	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	*Volume Index*						*Value at Current Prices (millions US$)*					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
X.MET.CO	135.1	104.1	94.6	100.0	84.8	95.8	1,100	678	574	736	907	1,242
X.MET.CU	46.3	83.8	104.2	100.0	103.7	99.6	111	100	50	50	57	55
X.MET.ZN	144.9	131.9	100.0	100.0	98.6	106.6	32	18	12	13	22	31
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	214	75	60	67	81	72
Total Exports FOB	..	..	..	..	..	..	1,457	871	696	866	1,067	1,400
F. Merchandise Imports												
Food	..	..	..	..	..	..	..	34	17	20	76	..
Fuel and energy	..	..	..	..	..	..	191	170	71	67	62	74
Other Consumer Goods	..	..	..	..	..	..	..	151	168	234	190	..
Other Intermed. Goods	..	..	..	..	..	..	..	191	167	168	274	..
Capital goods	..	..	..	..	..	..	..	287	257	283	264	..
Total Imports CIF	..	..	..	..	..	..	1,300	833	680	772	886	1,033

G. Merchandise Terms of Trade	*1980*	*1985*	*1986*	*1987*	*1988*	*1989*
Merch. Exports Price Index	..	..	..	..	..	..
Merch. Imports Price Index	..	..	..	..	..	..
Merch. Terms of Trade	..	..	..	..	..	..

H. Balance of Payments	*US$ millions (at current prices)*					
	1980	*1985*	*1986*	*1987*	*1988*	*1989*
Exports of Goods & NFS	1,608	865	737	894	1,125	1,461
Merchandise (FOB)	1,457	797	691	847	1,067	1,400
Non-Factor Services	151	68	47	48	58	61
Imports of Goods & NFS	1,765	826	715	808	976	1,169
Merchandise (FOB)	1,114	571	516	585	687	875
Non-Factor Services	651	255	198	223	289	294
Resource Balance	-157	39	23	86	149	292
Net Factor Income	-205	-420	-304	-242	-471	-401
(ST.interest per DRS)	116	43	64	60	61	63
Net Current Transfers	-183	-33	-42	-20	-25	-29
(workers' remittances)	..	..	0	1	..	..
Curr. A/C Bal. before Off. Transf.	-545	-413	-323	-176	-229	-204
Net Official Transfers	7	6	22	29	59	72
Curr. A/C Bal. after Off. Transf.	-537	-408	-301	-147	-170	-132
Long-Term Capital Inflow	163	392	-145	-241	-218	-222
Direct Investment	62	52	0	0	0	..
Net LT Loans (DRS data)	396	273	234	66	16	44
Other LT Inflow (Net)	-295	67	-379	-307	-233	-265
Total Other Items (net)	371	161	345	316	413	82
Net Short Term Capital	346	306	-99	166	558	141
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	25	-145	444	150	-145	-59
Changes in Net Reserves	4	-145	101	73	-25	112
Net Credit from the IMF	-28	64	63	132	-49	-126
Other Reserves Changes	32	-209	38	-59	24	238
As Share of GDP:						
Resource Balance	-4.0	1.8	1.4	4.2	4.1	5.2
ST.Interest Payments	3.0	1.9	3.8	2.9	1.7	1.1
Current Account Balance	-14.0	-18.3	-19.4	-8.5	-6.3	-3.7
Memorandum Items:						
Reserves excl. Gold (mil. US$)	78	200	70	109	134	..
Reserves incl. Gold (mil. US$)	206	201	71	111	139	..
Official X-Rate (LCUs/US$)	0.79	3.14	7.79	9.52	8.27	16.00
Index Real Eff. X-R Base 1980	100.00	83.97	40.44	42.70	66.30	85.75
GDP (millions of current US$)	3,884	2,252	1,664	2,208	3,617	5,568

I. Central Government Budget	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	25.1	22.3	24.7	22.3	18.7	16.9	..	102.9	36.3	28.8	90.2
Current Expenditures	33.1	33.1	41.7	29.8	26.0	19.2	..	130.5	8.3	33.7	54.9
Current Budget Balance	-8.0	-10.8	-17.0	-7.5	-7.3	-2.3	..	187.4	-32.8	48.4	48.8
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	4.0	3.6	7.5	3.3	4.5	4.4	..	281.7	-32.9	109.0	103.4
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	-17.5	-14.9	-28.5	-10.9	-12.4	-8.7	..	262.7	-42.1	73.6	48.8
Official Capital Grants	0.8	0.5	1.3	0.5	1.6	1.6	..	419.1	-46.6	411.6	112.8
External Borrowing (net)*	8.0	6.0	16.7	4.2	5.6	1.8	..	..	..	..	..
Domestic Non-Bank Financing	1.4	0.5	4.4	4.7	0.2	1.1	..	507.5	64.9	-85.5	686.0
Domestic Bank Financing	7.6	7.9	6.1	1.5	5.0	4.2	..	96.3	-63.4	388.7	61.9

* including change in arrears

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	421	274	234	66	16	44	2,146	3,159	3,767	4,374	4,194	4,093
Official Creditors	278	231	196	91	90	47	1,501	2,542	3,179	3,758	3,671	3,517
Multilateral	42	145	137	66	40	15	397	732	987	1,235	1,189	1,218
of which IBRD	10	26	14	-4	0	0	346	370	460	555	508	501
of which IDA	2	63	79	42	6	4	2	105	190	260	254	253
Bilateral	236	87	59	25	50	32	1,105	1,810	2,192	2,524	2,482	2,298
Private Creditors	143	42	37	-25	-74	-3	644	617	587	615	523	576
Suppliers	136	3	13	-7	-39	-18	288	217	214	238	188	202
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	-25	0	0	0	0	0	87	0	0	0	0	0
Total LT	396	274	234	66	16	44	2,232	3,159	3,767	4,374	4,194	4,093
IMF Credit	33	-25	-32	-4	0	-18	447	801	858	991	940	900
Net Short-Term Capital	346	306	-99	166	558	141	586	676	1,018	1,089	1,364	2,220
Total incl. IMF & Net ST	775	555	103	228	574	167	3,266	4,636	5,643	6,455	6,498	7,213

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	15.49	11.71	12.22	12.69	12.11	12.24
2. IDA as % of Total	0.09	3.32	5.03	5.94	6.05	6.18
3. IBRD+IDA as % of Total	15.58	15.03	17.26	18.62	18.16	18.42
Share of LT Debt Service						
1. IBRD as % of Total	14.75	48.06	45.19	20.84	0.34	0.00
2. IDA as % of Total	0.00	0.68	1.29	0.45	0.00	0.00
3. IBRD+IDA as % of Total	14.75	48.75	46.48	21.29	0.34	0.00
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	137.41	363.99	509.88	488.01	337.25	293.26
2. IMF Credit/Exports	27.54	92.26	116.17	110.62	75.63	64.50
3. Short-Term Debt/Exports	36.08	77.94	137.80	121.55	109.66	159.05
4. LT+IMF+ST DOD/Exports	201.03	534.19	763.84	720.17	522.53	516.81
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	57.48	140.25	226.31	212.09	104.93	76.01
2. IMF Credit/GDP	11.52	35.55	51.56	48.07	23.53	16.72
3. Short-Term Debt/GDP	15.09	30.03	61.16	52.83	34.12	41.22
4. LT+IMF+ST DOD/GDP	84.09	205.82	339.04	312.99	162.57	133.95
Debt Service /Exports						
1. Public & Guaranteed LT	17.68	10.12	17.88	14.88	14.14	10.63
2. Private Non-guaranteed LT	2.51	0.00	0.00	0.00	0.00	0.00
3. Total Long-Term Debt Service	20.20	10.12	17.88	14.88	14.14	10.63
4. IMF Repurchases+Serv. Chgs.	5.14	5.75	31.11	0.50	0.05	1.30
5. Interest only on ST Debt						0.16
6. Total (LT+IMF+ST Int.)	25.33	15.87	48.99	24.01	14.19	12.09

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

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 north west and the Republic of South Africa on the south. The estimated GNP per capita was US$610 in 1988[1] and the population is estimated (mid-1988) to have been 9.3 million, 98 percent of whom are of African origin. The growth rate of the population is currently estimated to be about 3.0 percent per year and declining.

Initial Post-Independence Developments

At independence in 1980, Zimbabwe inherited a well-diversified economy, with good potential for growth and a well-developed administrative and physical infrastructure. During the period of relative isolation of the economy following the Unilateral Declaration of Independence(UDI)—1965-80—Zimbabwe had maintained strong agriculture and mining sectors and extensively diversified its production of manufactured products for the domestic market. In spite of sanctions, it continued to export agricultural and mining products. The UDI period also saw development of a tightly controlled economic system, with administrative allocation of foreign exchange, price controls and regulation of private investment. Despite the basic strength of the economy, the government was faced with a number of difficult issues at Independence. The Zimbabwean population expected the government to make rapid progress in redressing the severe inequalities in income, capital, land-holding and access to basic social services. At the same time, owing to foreign exchange shortages during UDI and the effects of the war of liberation, physical infrastructure and the capital stock were severely depleted. On the human capital side, there were significant shortages of skilled manpower, largely due to the emigration of white Zimbabweans and the educational policies of the pre-Independence government. Finally, the new government was faced with internal and external security problems that affected both business confidence and the transport of exports and imports.

The government has effectively left intact the inherited structure of ownership, with predominantly private ownership of the productive sectors and an extensive multinational presence. It has also maintained the system of economic controls. Within this framework there have,however, been significant policy shifts. In the first two years after independence, the government introduced a number of measures in pursuit of its goal of growth with equity. To promote growth, it sharply increased foreign exchange allocations (in anticipation of rapid growth of exports and large inflows of concessional assistance), raised agricultural producer prices and invested heavily in the road and rail systems to repair the damage incurred during the war. To promote equity, it undertook a rapid expansion of education and health services, increased minimum wages, initiated a major reorientation of agricultural services toward the communal (smallholder) areas, and introduced an agricultural resettlement program. The combination of these policies, with very favorable weather conditions resulted in bumper crops (especially for maize) and an economic boom in 1980 and 1981. Growth in GDP averaged 10 percent per annum in these years.

This combination of rapid growth in domestic demand and worsened external circumstances led to the emergence of macroeconomic imbalances from 1981 onwards. Balance of payments pressures, which had developed shortly after independence, intensified as exports stagnated, while imports and service outflows rose rapidly. The current account deficit rose alarmingly—from 2.5 percent of GDP in 1979 to 11.5 percent in 1981. Moreover, although US$2.2 billion had been pledged by the international community at the March 1981 Zimbabwean conference on Reconstruction and Development, official capital inflows were slow to materialize. As a consequence, the government had to rely heavily on relatively short-term,high-cost borrow-

1. Using *World Bank Atlas* methodology.

ing from commercial sources and on reserve draw down to finance the current account deficit. Furthermore, the expansion of government spending, increases in wages and salaries, and increases in domestic credit resulted in a marked increase in domestic inflation.

Stabilization of External Imbalances, 1982-89

By 1982, it was clear that a stabilization program would be necessary in order to restore the economy to a position of reasonable external balance. The government effected a remarkable reduction in current account deficits, from over 11 percent of GDP in 1981 and 1982 to near-balance in 1987 and 1988. This creditable performance was achieved in spite of the continuance of deficits of the consolidated public sector (including parastatals) at about 14 percent of GDP and of the central government of 8 percent of GDP. Inflation has remained moderate at 10-15 percent per annum. The picture in 1989 is mixed. Current account deficit marked a rapid increase to 3.1 percent. Although resource balance remained positive despite a 7 percent increase in the import volume, mainly in capital goods and intermediate goods, net factor payments increased sharply as a result of the government's liberalized dividend payment policy to stimulate direct foreign investment. Inflation remained high at about 13 percent while the central government deficit slightly moderated, from 9 to 8 percent.

The key policy instrument in the stabilization program has been the system of comprehensive foreign exchange allocations. Controls over the capital account have largely kept private savings inside the country,while cutbacks in allocations for imports have been the principal means for reducing the current account deficit. In 1984 allowable remittances of profits and dividends were reduced from 50 percent of post-tax profits to zero for pre-1979 investments, raised again to 50 percent in 1985 but were cut to 25 percent in May 1987. In 1989, this limit was raised to 100 percent of profits on a case-by case basis. The direct management of foreign exchange has been complemented by a flexible exchange rate policy, which led to a real depreciation of the Zimbabwe dollar of about 35 percent between 1980 and 1989 as well as by increases in the controlled prices of foods and utility and rail tariffs; the use of wage policy as an anti-inflation measure; and prudent monetary policy.

The stabilization program effectively tackled external imbalances and prevented the external debt situation from becoming unmanageable. The heritage of the current account deficits of 1981-83 was a debt service ratio of 35 percent in 1988, but much of this was due to a hump in repayment obligations to commercial banks and the IMF. The estimated 1989 debt service ratio was moderate, to about 26 percent and is expected to decrease further. External borrowing policy has been highly conservative since 1983. However, there were also major costs. Much of the burden of adjustment fell on investment in the productive sectors, where both significant refurbishing and new investment were urgently required for future growth. There was also failure to make progress in two key policy areas. First, although the foreign exchange allocation system was relied upon as a macroeconomic instrument of adjustment, the government is only now undertaking a serious assessment of the constraints it imposes on economic restructuring. Second, the commitments to education and defense and continued parastatal losses led to maintained pressures on the budget.

Export performance has also been mixed since independence. The agricultural sector was severely affected by the 1982-84 drought, leading to declines in export volumes in this period. With the improved weather conditions of 1985, there was a major recovery and agricultural exports rose by over 17 percent in volume terms. A further increase in the volume of agricultural exports, of the order of 15 percent, is estimated to have occurred between 1985 and 1989. Exports of mining sector products were adversely affected by the international recession up to the early 1980s but there has been some volume growth since 1985, particularly following improved prices in 1989. Export growth in mining since 1987 has been disappointing, because of decline in export prices and foreign exchange constraint impeding output and investment recovery. The overall export performance of the manufacturing sector since independence has been poor, but this largely reflects problems in the iron and steel company. If this is excluded, average growth between 1980 and 1989 was four percent per annum. This constitutes an important reversal of the long-term decline of the UDI period. The overall performance is indicative of a high degree of responsiveness to changing incentives and domestic conditions, showing strong growth after 1983 with the improvement in competitiveness after the devaluation and the introduction of an Export Revolving Fund to provide foreign exchange for inputs for exporters of manufactures.

Income and Employment

Zimbabwe inherited a highly unequal distribution of wealth and income, with widespread poverty, especially in rural areas. With a population growth rate of 3.6 percent per annum although rapidly declining, average per capita incomes in 1988 were below the levels prevailing in 1975 and 1980. However, there have been significant improvements in three areas. First, smallholder incomes have risen, apart from in drought years, as a consequence of the supportive policy on agricultural pricing and the reorientation of agricultural services toward the communal areas. Second, minimum wage policy has raised the incomes of the poorest wage-earners—agricultural laborers—but probably at the cost of lower employment levels. Third, there has been a substantial expansion of basic services in health, family planning, education, and urban services. The major concern within Zimbabwe lies with the employment problem. Formal employment has stagnated over the last decade, while a rapid influx of school leavers into the labor force have occurred in the late 1980s and will continue into the 1990s. Even with a labor-intensive pattern of formal sector growth only a fraction of new entrants to the labor force are likely to find formal sector jobs. This implies the need for policies to support both the sustained expansion of peasant agriculture and growth in the rural and urban informal sectors.

Issues for Future Growth

A major expansion in agriculture led to a temporary recovery in economic activity in 1985 with 7 percent growth and a similar weather-induced recovery was recorded for 1988. Growth in 1989 is estimated to have been 6 percent. Apart from these years the economy has experienced little growth. Zimbabwe is now in a downward cycle of low growth, declining fixed investment, stagnant formal employment and constrained foreign exchange availabilities. The government is clearly aware of the gravity of the problem. The overall direction for future change is laid out in the first Five-Year Development Plan for 1985-90, which emphasizes investment in the productive sectors, expansion of exports, and reduction in the budget deficit and the external debt service ratio.

Furthermore, the government has introduced a range of policy measures in the past two years. These include gradual easing of the allocation of foreign exchange, a freeze on wages and prices (which was partially lifted in 1988), new external borrowings from commercial banks that have been linked to export-oriented activities, and a partial liberalization of investment for foreign firms. However, most of these measures are likely to have only a limited impact on the underlying causes of the growth problem that lie in the severe decline in net investment in the productive sector (probably to a negative level), weak medium-term export growth, a poor incentive environment for economic restructuring and internal macroeconomic resource imbalances that involve a large transfer of private savings into public debt. The government is now in the process of formulating a comprehensive framework for adjustment that would both tackle the macroeconomic problems and provide an environment for economic restructuring.

Some elements of this framework are already in place. Recently, the government has announced a new Investment Code, established an Investment Centre to ensure rapid approval of investment applications, and instituted new profit remittance regulations. The government has also joined the MIGA and is negotiating to sign other bilateral investment guarantee protocols. These measures are expected to stimulate investment by both domestic and foreign private sectors. A broad program for adjustment is expected to be announced by the government shortly.

Future growth will depend on both domestic policy and external developments. With OECD growth projected at around three percent per annum, effective policy reform could support economic growth in Zimbabwe of four percent per annum or above. A successful policy package would need to include measures to reform the foreign exchange allocation system, reduce the public sector resource deficit and encourage the expansion of productive investment, complemented by adjustments in pricing, regulatory and labor policies. Failure to tackle these underlying causes of the growth problem would be likely to lead to medium-term growth rates of about 2 percent per annum. With poorer external trading prospects, the case for policy reform would remain equally strong, but greater demands would be placed on macroeconomic management (especially fiscal and exchange rate policy) to maintain stability.

External capital inflows will be essential to finance current account deficits and support the adjustment process, especially in this transitional period. Zimbabwe's debt service ratio was 35 percent in 1988, compared with 4 percent in 1980, a consequence of terms of trade losses, slow growth of export volumes and borrowings on hard terms in 1980-83. However the prudent debt policy since 1983 has led to a reduction in the debt burden, with an actual decline in the debt service ratio to 26 percent in 1989. There has been no rescheduling and the high debt service burden in recent years reflects to a large extent a bunching of repayment obligations. The anticipated improvement in the debt-service situation places the government in a position to secure adequate capital inflows from new public borrowing provided there is steady export growth. A mixture of new commitments from bilateral, multilateral and commercial sources is likely to be required, with a small increase in the exposure of commercial banks by the end of the decade.

ZIMBABWE

Mid-1988 Population (mils.)	9
1988 Per Capita GNP in US$:	610

	A. Shares of Gross Domestic Product *(from current price data)*						B. Growth Rates(% per annum) *(from constant price data)*				
	1965	*1973*	*1980*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	9.3	-0.4	2.8	7.0	5.5
Net Indirect Taxes	9.1	6.6	6.3	11.4	11.9	12.4	..	..	..	..	..
Agriculture	16.3	13.8	13.1	10.7	12.2	11.1	..	-0.3	2.7	25.4	1.7
Industry	31.5	36.6	36.3	34.8	33.1	34.0	..	-1.5	1.8	3.4	6.7
(of which Manufacturing)	17.9	22.1	23.3	23.5	22.4	23.2	..	0.4	2.1	5.0	7.8
Services	43.1	42.9	44.3	43.2	42.8	42.5	..	1.1	2.9	4.2	4.6
Resource Balance	7.5	2.0	-3.0	4.1	3.2	1.3	..	..	..	..	..
Exports of GNFS	..	..	30.3	31.2	28.1	30.3	..	-1.4	6.3	1.5	3.3
Imports of GNFS	..	..	33.3	27.1	24.9	29.0	..	4.5	-4.5	9.4	6.5
Total Expenditures	92.5	98.0	103.0	95.9	96.8	98.7	..	2.4	-0.4	9.4	6.5
Total Consumption	77.3	72.6	84.2	76.8	78.2	79.3	10.0	3.0	-0.5	10.8	7.0
Private Consumption	65.3	61.0	64.5	49.1	52.3	54.8	..	2.4	-3.7	14.6	8.6
General Government	11.9	11.6	19.7	27.6	25.9	24.6	8.3	13.7	9.6	4.0	4.0
Gross Domestic Investment	15.2	25.4	18.8	19.1	18.6	19.3	7.6	-11.1	0.1	4.0	4.1
Fixed Investment	12.8	21.2	15.3	15.5	13.4	14.1	14.5	-10.2	-4.0	4.0	4.0
Changes in Stocks	2.4	4.2	3.5	3.6	5.2	5.2	..	..	..	..	..
Gross Domestic Saving	22.7	27.4	15.8	23.2	21.8	20.7	..	-14.6	10.2	2.1	-6.6
Net Factor Income	-3.3	-2.5	-1.4	-4.0	-3.3	-4.2	..	..	..	..	..
Net Current Transfers	0.0	-0.9	-2.3	-0.6	0.1	-0.2	..	..	..	..	..
Gross National Saving	19.4	24.0	12.2	18.7	18.6	16.2	..	-16.5	14.5	8.1	-15.3
In millions of LCUs (at constant 1987 prices)	*1965*	*1973*	*1980*	*1987*	*1988*	*1989*					
Gross Domestic Product	3,567	6,646	7,156	8,928	9,551	10,078	9.3	-0.4	2.8	7.0	5.5
Capacity to Import	..	..	2,735	2,789	2,992	2,954	..	-1.4	0.5	7.3	-1.3
Terms of Trade Adjustment	..	..	937	0	160	29	..	..	..	..	..
Gross Domestic Income	..	..	8,093	8,928	9,711	10,106	..	0.5	1.2	8.8	4.1
Gross National Product	3,453	5,650	7,044	8,573	9,226	9,646	6.7	1.0	2.6	7.6	4.5
Gross National Income	..	..	7,981	8,573	9,386	9,674	..	0.9	1.0	9.5	3.1

C. Price Indices	(1987 = 100)						Inflation Rates (% p.a.)				
	1980	*1985*	*1986*	*1987*	*1988*	*1989*	*1965-73*	*1973-80*	*1980-88*	*1988*	*1989*
Consumer Prices (IFS 64)	38.7	77.8	88.9	100.0	107.4	121.3	2.1	9.9	14.3	7.4	12.9
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	48.1	79.6	91.6	100.0	112.1	126.1	1.1	10.6	10.5	12.1	12.5
Implicit Expenditures Defl.	42.4	71.8	88.5	100.0	110.6	125.7	..	11.6	12.6	10.6	13.6

D. Other Indicators:

Growth Rates(% p.a.):	*1965-73*	*1973-80*	*1980-88*
Population	3.5	2.9	3.6
Labor Force	..	..	..
Gross Natl. Income p.c.	..	-2.0	-2.5
Private Consumption p.c.	..	-0.5	-7.0
Import Elasticity:			
Imports (G+NFS) / GDP(mp)	..	-12.3	-1.6
Marginal Savings Rates:			
Gross National Saving	30.5	-113.1	61.6
Gross Domestic Saving	33.5	-120.5	54.2
ICOR (period averages):	..	29.8	6.2

Share of Total Labor Force in:	*1965*	*1973*	*1980*	*1988*
Agriculture	79.2	75.9	72.8	..
Industry	7.9	9.2	10.5	..
Services	13.0	14.9	16.7	..
Total	100.0	100.0	100.0	100.0

E. Merchandise Exports	Volume Index 1980	1985	1986	1987	1988	1989	Value at Current Prices (millions US$) 1980	1985	1986	1987	1988	1989
X.OAGRI.TOBACCO	99.0	100.0	99.0	100.0	100.0	105.0	192	223	254	274	289	297
X.MET.AU	106.4	76.6	87.2	100.0	..	..	180	121	247	267	212	175
X.OAGRI.COTTON	..	..	..	..	..	..	90	94	80	74	74	105
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	410	425
Residual	90.1	91.9	95.5	100.0	92.8	88.3	984	678	736	832	519	618
Total Exports FOB	59.9	76.0	98.2	100.0	..	..	1,446	1,116	1,317	1,447	1,504	1,620
F. Merchandise Imports												
Food	243.9	224.4	143.9	100.0	83.7	85.9	49	35	21	12	16	16
Fuel and energy	82.6	100.0	108.3	100.0	106.5	110.9	271	192	118	136	161	200
Other Consumer Goods	163.9	103.3	104.9	100.0	100.0	102.6	130	61	73	77	356	365
Other Intermed. Goods	102.0	99.0	98.0	100.0	109.4	113.4	485	350	400	464	..	..
Capital goods	119.0	127.4	157.1	100.0	103.5	118.7	325	260	374	267	512	580
Total Imports CIF	108.7	110.9	115.2	100.0	108.7	115.9	1,641	1,040	1,130	1,110	1,325	1,453

G. Merchandise Terms of Trade	1980	1985	1986	1987	1988	1989
Merch. Exports Price Index	170.1	107.8	91.7	100.0	..	..
Merch. Imports Price Index	136.1	84.5	88.4	100.0	109.8	112.9
Merch. Terms of Trade	125.0	127.6	103.6	100.0	..	..

H. Balance of Payments	US$ millions (at current prices) 1980	1985	1986	1987	1988	1989
Exports of Goods & NFS	1,612	1,412	1,485	1,611	1,669	1,825
Merchandise (FOB)	1,445	1,116	1,317	1,447	1,504	1,620
Non-Factor Services	167	295	168	164	165	205
Imports of Goods & NFS	1,721	1,375	1,317	1,412	1,479	1,744
Merchandise (FOB)	1,339	917	1,008	1,069	1,110	1,383
Non-Factor Services	382	458	309	343	369	362
Resource Balance	-109	36	168	199	190	80
Net Factor Income	-72	-134	-193	-201	-198	-255
(interest per DRS)	10	122	128	130	144	152
Net Current Transfers	-121	-46	-27	-32	5	-12
(workers' remittances)	9	..	..	..	..	..
Curr. A/C Bal. before Off. Transf.	-302	-144	-52	-35	-3	-187
Net Official Transfers	58	66	58	80	60	78
Curr. A/C Bal. after Off. Transf.	-244	-78	6	45	57	-109
Long-Term Capital Inflow	-54	18	8	-45	211	199
Direct Investment	2	3	7	-31	4	4
Net LT Loans (DRS data)	93	29	53	7	-76	195
Other LT Inflow (Net)	-148	-13	-52	-21	283	0
Total Other Items (net)	211	142	42	124	-176	-21
Net Short Term Capital	24	99	108	108	31	-21
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	187	43	-66	16	-207	-1
Changes in Net Reserves	87	-82	-55	-124	-92	-69
Net Credit from the IMF	..	8	-30	-77	-86	-40
Other Reserves Changes	87	-90	-25	-47	-5	-29
As Share of GDP:						
Resource Balance	-2.0	0.8	3.4	3.7	3.2	1.3
Interest Payments	0.2	2.8	2.6	2.4	2.4	2.5
Current Account Balance	-5.6	-3.3	-1.0	-0.6	-0.1	-3.1
Memorandum Items:						
Reserves excl. Gold (mil. US$)	214	93	106	166	179	95
Reserves incl. Gold (mil. US$)	419	345	316	370	341	274
Official X-Rate (LCUs/US$)	0.64	1.61	1.67	1.66	1.81	2.12
Index Real Eff. X-R Base 1980	100.00	91.77	84.22	80.60	74.74	..
GDP (millions of current US$)	5,355	4,354	4,982	5,375	5,941	6,012

I. Budget (specify level)	Share of GDP (%) 1980	1985	1986	1987	1988	1989	Growth Rates 1980-84	1986	1987	1988	1989
Current Receipts	24.1	29.2	30.9	32.9	32.7	37.1	22.4	15.7	25.4	16.3	18.8
Current Expenditures	26.3	30.1	33.0	39.0	37.3	37.6	19.9	21.5	16.3	11.7	14.2
Current Budget Balance	-2.2	-0.9	-2.1	-6.2	-4.6	-0.5	..	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	4.0	4.7	5.5	6.2	6.8	14.0	..	..	..	..	..
Adjustments	..	..	..	..	..	..	..	..	..	..	..
Overall Deficit	8.6	8.0	10.7	9.3	9.1	8.3	26.9	30.3	31.4	26.1	4.7
Official Capital Grants	0.2	1.2	1.1	1.4	1.2	0.9	26.2	-13.0	25.7	23.3	12.1
External Borrowing (net)	0.4	2.1	2.4	1.4	0.8	1.1	-0.3	29.0	122.7	-40.9	1.8
Domestic Non-Bank Financing	4.7	8.1	6.3	4.8	5.7	6.9	22.4	-13.8	-11.9	6.8	13.4
Domestic Bank Financing	3.4	2.6	1.7	3.0	2.3	0.2	..	-174.4	101.3	29.3	-66.7

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1985	1986	1987	1988	1989	Debt Outstanding & Disbursed (US$ millions) 1980	1985	1986	1987	1988	1989
Public & Publicly Guar. LT	93	29	53	3	-75	208	696	1,827	2,126	2,430	2,231	2,404
Official Creditors	72	106	107	138	109	100	101	667	879	1,195	1,220	1,335
Multilateral	-3	62	61	49	56	46	3	268	385	521	539	633
of which IBRD	-3	42	26	23	5	17	3	205	280	373	347	363
of which IDA	0	4	13	4	6	3	0	29	46	58	61	62
Bilateral	75	45	46	89	53	54	98	399	493	674	681	702
Private Creditors	21	-78	-54	-135	-184	109	595	1,160	1,247	1,235	1,010	1,069
Suppliers	0	1	17	-9	-9	-10	0	24	47	43	31	21
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-guaranteed	0	0	0	4	-1	-13	0	65	56	59	50	37
Total LT	93	29	53	7	-76	195	696	1,892	2,182	2,489	2,281	2,441
IMF Credit	0	-50	-95	-106	-78	-38	0	264	234	157	70	30
Net Short-Term Capital	24	99	108	108	31	-21	90	308	290	266	308	322
Total incl. IMF & Net ST	116	78	66	9	-123	136	786	2,464	2,706	2,912	2,659	2,793

Bank and IDA Ratios	1980	1985	1986	1987	1988	1989
Share of Total Long-Term DOD						
1. IBRD as % of Total	0.46	10.82	12.85	14.97	15.19	14.86
2. IDA as % of Total	0.00	1.53	2.11	2.34	2.67	2.55
3. IBRD+IDA as % of Total	0.46	12.35	14.97	17.31	17.86	17.40
Share of LT Debt Service						
1. IBRD as % of Total	6.61	5.23	7.69	8.00	11.47	14.90
2. IDA as % of Total	0.00	0.10	0.11	0.10	0.11	0.10
3. IBRD+IDA as % of Total	6.61	5.33	7.81	8.10	11.57	15.00
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	40.24	130.50	143.35	151.35	135.69	132.61
2. IMF Credit/Exports	0.00	18.22	15.36	9.52	4.18	1.63
3. Short-Term Debt/Exports	5.21	21.24	19.06	16.20	18.29	17.49
4. LT+IMF+ST DOD/Exports	45.45	169.96	177.77	177.06	158.16	151.73
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	12.99	43.45	43.79	46.31	38.40	40.61
2. IMF Credit/GDP	0.00	6.07	4.69	2.91	1.18	0.50
3. Short-Term Debt/GDP	1.68	7.07	5.82	4.96	5.18	5.36
4. LT+IMF+ST DOD/GDP	14.67	56.59	54.31	54.18	44.75	46.46
Debt Service /Exports						
1. Public & Guaranteed LT	2.89	21.62	22.89	24.39	26.56	21.28
2. Private Non-guaranteed LT	0.00	0.00	0.00	1.05	1.65	0.99
3. Total Long-Term Debt Service	2.89	21.62	22.89	25.45	28.22	22.27
4. IMF Repurchases+Serv. Chgs.		4.95	7.60	7.38	5.18	2.34
5. Interest only on ST Debt	0.89	2.07	1.38	1.32	1.33	1.32
6. Total (LT+IMF+ST Int.)	3.77	31.12	33.06	35.97	34.72	25.93

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calendar year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Technical Notes to the Economic Indicator Tables

The Economic Indicator Tables (EITs) that follow country texts recast socio-economic indicators reported in other Bank publications, notably *World Tables* and *World Debt Tables*, in order to provide a uniform statistical framework for analyzing countries' economic peformances. These notes do not repeat the technical notes from those publications; readers interested in details of sources, methods, standards, and definitions normally applied to the data should refer to the Bank's statistical publications directly. For further information, users are invited to address the Socio-Economic Data Division of theWorld Bank's International Economics Department.

Differences between data in EITs and other Bank publications normally arise from the "vintage" of the data and, more importantly, because EITs are designed more for analysis of individual countries than for international comparisons. EITs may use country data that are not compiled in strict accordance with international standards but are the most recent estimates available and often the ones most useful in placing country policy decisions in context. These differences are generally not considered analytically significant for a particular country. Exceptions, and other known limitations of EIT data, are sometimes noted in the boxes on each EIT page.

Data in EITs are, for the most part, a "core" of socio-economic indicators used internally by the Bank. They are displayed in a uniform format that analyzes national accounting aggregates on the first data page, international transactions on the second, and fiscal accounts and external debt on the third.

Page 1 of each table contains the mid-year population and per capita GNP from the *World Bank Atlas* 1989, modified to reflect more recent estimates. National accounts and some demographic data are dealt with in four parts. Part A gives shares of Gross Domestic Product (GDP), based on current price (cp) national accounts, as available. Part A ends with some key indicators expressed in local currency units (LCUs), rescaled to 1987 prices. These indicators are useful for interpreting the effects of changing terms of trade, and for noting country differences in the importance of factor income and unrequited transfers to or from the rest of the world. Note that national accounts data are partially rebased to improve intercountry comparability, and that least-square growth rates are used for periods of more than a year. For additional details, see *World Tables* technical notes.

Part B provides growth rates for constant 1987 price series corresponding to the series identified in Part A. Part C expresses key price data both indexed to 1980 and as rates of change; Part D provides supplementary indicators of analytical interest.

Import elasticities and ICORs (incremental capital-output ratios) are calculated from constant price data. Marginal savings rates of both Gross Domestic Savings (GDS) and Gross National Savings (GNS) are calculated from deflated current price data, with GDP, GDS, GNP and GNS all deflated by the same implicit price deflators to produce marginal saving rates undistorted by inflation. GDS is defined at Gross Domestic Income (GDP adjusted for terms of trade effects) less Total Consumption; GNS differs by including net factor income.

Page 2 relies in part on data published in the International Monetary Fund's *International Financial Statistics* (IFS) and *Balance of Payments Statistics*, but includes Bank staff estimates, especially for recent years. Parts E and F contain external trade data that should be consistent with those in the balance of payments for merchandise trade (adjusting imports between c.i.f.—cost, insurance, and freight—and f.o.b.—free on board) and in national accounts (when adjusted for nonfactor services). Differences in the two data sets reflect the different sources used in compiling the figures. While work is progressing within the Bank to resolve or at least explain major differences, measures obtained from each set are reported. This should assist readers to make their own judgments about the analytical implications of differences that do exist. Exports are detailed to report separately on up to four nonfuel primary products, fuels, and manufactures. Imports are detailed according to an end-use classification although the national methodology is not always known, especially for intermediate goods. Therefore, the numbers shown are not comparable across countries.

Note that the price indices reported in Part G are usually in accordance with national methodologies, and differ from those published in the *World Tables*, which are based on a uniform Bank methodology.

Three ratios in Part H express key balance of payments measures as a percentage of GDP. GDP converted to US dollars is reported in the same section to help users compile additional ratios. Measures are also provided for reserves (with and without gold valued at the end-year London market price) and the (principal) exchange rate as reported in the *IFS*. For exceptional cases, the Bank uses a different rate for conversion purposes for estimating GNP in US dollars. An index of the real, effective exchange rate with a 1987 base is also included here, usually as given in the *IFS* but sometimes based on national methodology or procedures developed by Bank staff; in all cases, increases indicate an appreciation relative to the dollar.

Part I on page 3 gives summary measures of the budget for the level of government considered most appropriate for analysis of macroeconomic issues. This is sometimes the central government as defined in the Fund's *Government Finance Statistics Yearbook* but may be narrowly defined (budgetary central government) or include additional units of general government; in exceptional cases, accounts of some or all public enterprises are also consolidated. Where possible, the heading for Part I identifies coverage of the accounts given in the EIT. All figures are presented as shares of GDP calculated from data in current market prices.

The external capital flows, debt, and debt burden ratios given in Part J are based mainly on the Bank's Debtor Reporting System and reported in more detail in the *World Debt Tables*. For calculating ratios, "exports" comprise merchandise exports plus receipts from services (factor and nonfactor), plus workers' remittances. DOD refers to outstanding and disbursed; LT means long-term, ST means short-term.

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Other annual statistical publications of related interest

Social Indicators of Development

Covering more than 130 developing countries that are members of the World Bank, this volume contains the latest estimates of population and GNP per capita, as well as three time periods of data on labor force, infant mortality, calorie supply, and primary school enrollment. Summary tables combine social and economic indicators to aid comparison of countries and country groups. The data are gathered from governments, from specialized international agencies, and from the files of the W Bank.

World Debt Tables

This volume provides an overview of the external debt of 111 developing countries. Compiled fr the World Bank's exclusive Debtor Reporting System, it gives statistics by country on public a publicly guaranteed long-term debt, private nonguaranteed long-term debt, short-term debt, a International Monetary Fund credits. Charts on debt service and debt stocks also describe the de situation in each country. Aggregate data are presented for all countries and for selected grour including principal borrowers and highly indebted countries. Supplements update the statistics se eral times each year.

World Development Report

Published since 1978, this series of reports has been described by *The Guardian* as "the nearest thir to having an annual report on the present state of the planet and the people who live on it." Eac edition presents an economic overview and then concentrates on a specific topic of concern in worl development. The 1990 edition focuses on the topic of poverty. The World Developmer Indicators—a section of 32 statistical tables, with technical notes and maps—provide comprehensive up-to-date data on social and economic development in more than 120 countries and territories.

World Tables

The current edition provides timely economic, demographic, and social data for more than 130 countries and territories. The historical time series for 1967–87 is based on the World Bank's continuous collection and analysis of statistics on its member countries. The data focus on national accounts, international transactions, and other indicators of development. Data for each country include GNP per capita, population, origin and use of resources, domestic prices, manufacturing activity, monetary holdings, central government finances, foreign trade, balance of payments, and external debt.

Data on Diskette and Magnetic Tape

All of the data series described above are available on 5.25- and 3.5-inch diskettes, so that users of DOS 2.0 or higher operating systems may view or manipulate the data in their personal computers and export data in a variety of electronic formats. Data from *World Debt Tables* and *World Tables* are also available on magnetic tape.

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