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A PRELIMINARY ASSESSMENT OF THE PERFORMANCE OF THE AFRICAN ECONOMY IN 1986 AND PROSPECTS FOR 1987

by

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A. Introduction

For Africa, 1986 has been a fateful year, a year of preoccupation with far-reaching adjustments and policy necessary reforms for laying the foundations of economic recovery. The African countries, in spite of their differences in economic structures and problems, shared in common in 1986 the compelling need to start in earnest the recovery process, following three years of preoccupation with the Great African Drought Disaster of 1983 to 1985, and the African Priority Programme for Economic Recovery, 1986-1989 (APPER), which was adopted by the 21st Session of the Assembly of Heads of State and Government of the Organizatin of African Unity in July 1985. Many governments have introduced or committed themselves to introducing policy changes and necessary structural adjustments which would make them less vulnerable to future emergencies and as well assist in laying the foundations for self-sustained economic growth and development. 1986 marks, indeed, the first full year of implementation of APPER and a year in which the African people, finding themselves at the economic crossroads, took the path of honour and integrity to will an economic future of recovery and growth for themselves.

At the same time, 1986 should be seen as the year of increased international solidarity with Africa, with the successful convening of the thirteenth Special Session of the United Nations General Assembly which adopted the United Nations Programme of Action for African Economic Recovery and Development, 1986-1990 (UN-PAAERD). Significant in this regard is the fact that that was the first time a special session was convened to consider the economic problems of a continent. Within the framework

of the programme, African countries committed themselves not only to continue the restructuring process of their economies and policies, but also to largely mobilize their own resources for the implementation of the UN Programme of Action. In turn, the international community, particularly bilateral and multilateral donors, pledged its full support in complementing Africa's efforts.

However, it must be noted with concern that in spite of the unique expressions of international solidarity with Africa in 1986, there is as yet little evidence of concrete international meansures in direct response to the commitments entered into, in UN-PAAERD, - seven months after its adoption. The ongoing process of wide-ranging initiatives at policy reforms and adjustments in several Afrian countries is yet to be matched by similar positive responses on the part of their development partners.

One of the significant developments in Africa in 1986, on the positive side, is the transition from a uniformly disastrous situation to one that is distinctly marginally better, at least for some countries. This year, unlike in previous years, a large number of African countries - about thirty in all - have achieved an overall growth rate in output of over 3 per cent. Other positive developments in 1986 include the overall improvement in food production and record harvests in Africa. For the first time in more than a decade and a half, agricultural output in 1986 grew by more than 3 per cent - a figure which is slightly more than the population growth rate. The widespread threat of grasshopper and locust damage to cereal crops was averted, and, for some countries, the real problem in 1986 was how to dispose of exceptional food surpluses internally.

On the negative side, there was a slump in Africa's export trade in 1986, unprecedented perhaps since the Great Depression, resulting in a catastrophic drop in export values and an escalation in the deficits on the current account. With increased debt repayment obligations and lower levels of external resources inflows, the rate of investment in Africa also dropped in 1986. As if to make matters worse, the US Congress has recently taken the decision not to increase aid to Africa in 1987 but to reduce it by almost forty per cent. All these at a time when the African countries are, more than ever before, in dire need of expanded development assistance to support and supplement domestic resources.

B. Economic Performance in 1986

1. Overall Performance

It had been hoped, with the substantial improvements in weather conditions in 1985, that 1986 would see a modest recovery in the region's food and agriculture production and subsequently in overall economic performance. Hence, a growth rate of around 2 per cent was expected to be maintained in 1986. However, the provisional out-turn for the year in terms of continental growth-rate is now estimated at less than 2 per cent and may be as low as 1.2 per cent. Although the food and agriculture sector grew, as already indicated, by 3 per cent, the poor performance of the other sectors, particularly the collapse of oil prices and generally poor demand conditions for commodities resulted in depressing the rate of growth to a little over 1 per cent in 1986.

The substantial fall in oil prices, from an average level of around $28 a barrel to an average of only $14.5 a barrel, during the first ten months of 1986 sharply affected the incomes and growth of the oil exporters in Africa. Even the non-oil exporters which benefitted from the lower cost of oil imports as well as from the windfall of higher coffee price were the victims of depressed demand for key African exports like copper, cobalt, iron, phosphates, as well as agricultural commodities other than coffee. In addition, though the drought is over for a large number of countries and despite the fact that in many areas bumper crops are being harvested, the fundamental problems of African agriculture linger on. In many respects therefore, the economic crisis on the continent is still very much a reality; thanks principally to the exogenous factors, among the most serious of which are the collapsing commodity prices, adverse terms of trade, the decline of ODA in real terms, increased protectionism, and the heavy burden of debt and debt servicing obligations of African countries.

In a region so vast and diverse as Africa, global trends may be of limited significance as they often tend to mask divergence in performance among countries and between sub-regions. For instance, a total of about 13 countries - Cameroon, Rwanda, Botswana, Kenya, Mauritius, Morocco, Mali, Niger, Togo, Chad, Cape Verde, Ethiopia and The Gambia - recorded an overall growth rate of 5 per cent and above in 1986. At the other end of the spectrum, there are 9 countries - Angola, Congo, Gabon, Sao-Tome and Principe, Mozambique, Libyan Arab Jamahiriya, Liberia, Nigeria and Sierra Leone which experienced negative growth rates. The other countries have experienced low positive growth rates ranging from 0.2 per cent to 4.9 per cent. A few countries are approaching the food sufficiency ratio although food deficits persist on the continent as a whole.

2. Sectoral Performance

As we all know, the food and agriculture sector is the number one priority sector in Africa. Fortunately this year, the sector grew by more than 3 per cent, an overall growth rate that is, for the first time since the 1970s, higher than the population growth rate. The welcome result in many parts of the continent has been significant improvements in the food supply situation.

From information available to us at the ECA Secretariat, food crop conditions have been mostly favourable in the southern parts of the Sahelian countries of West Africa and in the coastal countries of the sub-region. Thus, in Burkina Faso, Chad, The Gambia, Cape Verde, for example, the 1986 output of cereals is estimated to have increased by no less than 10 per cent over the 1985 record. In Burkina Faso and the Gambia, in particular, the aggregate output of cereals is some 20 per cent or so higher than in 1985. Crop prospects are mostly also good in East Africa while in Southern Africa the outcome of the 1986 cereal harvest presents a mixed picture. For example, above average and generally good harvests have been reported in Swaziland, Zambia, Malawi and Zimbabwe, but cereal harvests have been below average in Angola, Botswana, Lesotho and Mozambique. In North Africa, the havest outlook is generally good except for Tunisia where the output of grains in 1986 was drastically reduced by a severe drought some 60 per cent below its 1985 level.

In spite of the overall improvement in food and agriculture production in 1986, many African countries will continue to rely in 1987 on increased food aid in order to meet their structural food deficits. This is even more so of countries which still have pockets of drought, a large population of refugees and/or are suffering

from civil strife. They will need, in varying degrees, massive food aid in 1987. The countries in question are Mozambique, Angola, Ethiopia, Sudan and Somalia.

The other production sectors - mining and manufacturing - exhibited distinctly opposing trends in 1986. Whereas the mining sector experienced a number of disquieting features unprecedented in both the fuel and non-fuel sub-sectors, the manufacturing sector showed marked recovery.

External demand considerations continued, as usual, to be the more decisive factor in the market for minerals in 1985-86. Of particular significance, however, for the group of African oil-exporting countries is the collapse in oil prices during 1986. The series of events which led to this collapse are familiar to all of us. What is important is that they have left in their trail substantially lower oil prices, diminished revenues and considerable uncertainty regading future development in the African oil-exporting countries. Indeed, by mid-1986, oil prices, at around $10 a barrel, were barely above their pre-1973 levels of 2.60 a barrel in real terms. As a result, African oil exporters have run huge balance of payments deficits - even at lower levels of imports - and are experiencing substantial reductions in governments revenue and expenditure.

In the non-fuel field many African countries continued to suffer from the vagaries of international demand for minerals. The recovery in the OECD countries has been particularly slow in stimulating a broad-based demand for African minerals, and positive demand shifts have at best remained sporadic and short-lived. Generally speaking, however, there has been a secular down-ward trend both in demand for and in the prices of African non-fuel minerals. This arose in part in response to

the gathering momentum of technological development which resulted in the reduction in the metal-content of output as well as from the prevailing situation of over-capacity and oversupply worldwide. Mineral prices have generally been on the decline albeit in an irregular fashion since 1980/81. In 1986 they have fallen by about 10 per cent, following a 6 per cent decline in 1985, to about two-thirds of their peak 1979/80 level. As a result, the major African mineral exporters, notably Liberia, Sierra Leone, Zambia, Zaire, Zimbabwe and Morocco have been particularly adversely affected. More ominously however is that the situation of poor demand and lower prices could seriously hamper current efforts in many countries to rehabilitate or renovate the mining sector.

Preliminary estimates for 1986 show that manufacturing output will increase by about 5.7 per cent for developing Africa as a whole, following the 4.5 per cent growth rate recorded in 1985 and -0.5 per cent in 1984. The overall improvement in manufacturing performance is attributed to improvements in the supply situation of local agricultural raw materials in many countries, as a result of which the rates of capacity utilization improved markedly for agro-industries. But the sector continued to be hampered by shortages of imported inputs due to non-availability of foreign exchange resources. For example, manufacturing was adversely affected by declining oil revenues in Algeria, Egypt, Libya, Tunisia and Nigeria. In Cote d'Ivoire, declining domestic demand was the main prblem whereas in Ghana, there was the additional problem of escalating production costs. The Southern African economies suffered additionally from their external dependence on the Republic of South Africa. In all, negative growth rates were recorded in manufacturing output in 1986 in countries such as Ghana, Cote d'Ivoire, Liberia, Sierra Leone, Togo, Sudan and Zaire.

3. The External Sector

The year 1986 may well go down in the annals of history as the worst ever for developing Africa's external sector. The fall in oil prices to less than half their end-1985 levels and the continuous downward-slide in commodity prices resulted in the largest yearly fall ever recorded in the region's export values. The only exceptions were coffee and groundnuts whose prices rose by 17 and 67 per cent respectively during 1986. Largely because of the collapse in export prices, total export earnings of developing Africa crashed from $60.6 billion in 1985 - itself a poor performance year - to $44.3 billion in 1986 i.e. a drop of about 27 per cent. Export revenues of the nine African oil producers fell by a record 36 per cent in 1986 to only $29.5 billion while those of the nonoil producers dropped by about 39 per cent to only $14.8 billion. The fall in the oil export revenues of some individual countries such as Nigeria and Libya were particularly severe, amounting to 42 per cent and 47 per cent respectively.

This dramatic fall in earnings has put added pressures on imports, more so as many countries were already hard pressed by debt repayment obligations at a time of stagnation in the volume of real external resource inflows. Imports fell by nearly 21 per cent to $52.2 billion in 1986. The fall would have been more drastic but for the relief provided to oil-importing countries by the collapse in oil prices. Even with lower imports, the African region's balance of current account is expected to worsen by some $20 to $25 billion in 1986 which is almost double the deficit of $12.9 billion sustained last year.

The region's disbursed and undisbursed foreign debt is estimated to be close to $200 billion, amounting to 44 per cent of GDP and 190 per cent of export earnings. Debt service ratio now exceeds 30 per cent of GDP on the average, and is much higher for many low income countries. African countries are saddled with some of the heaviest debt burdens in the world, and, for some of them, external debt has become more and more unmanageable. Another indication of the seriousness of the situation is the fact that about 32 countries have had to resort to rescheduling exercises in the course of the past three years, with only temporary relief for debt problems which often got worse later as arrears accumulated. Paradoxically, the combined effects of declining export earnings, contracting external capital inflows and increasing debt service obligations were such in 1986 as to make many African countries net-exporters of capital.

4. Trends in Domestic Policies

With the adoption of APPER, many African countries have begun to redefine their problems and priorities, more precisely, and to take concrete steps towards economic reforms, involving movement away from excessive preoccupation with short-term stabilization programmes (needed often to redress external payments position) to medium-term development programmes. For example, there were far-reaching reforms in domestic policies towards the agricultural sector in 1986, involving not only continued increases in producer prices and reductions in the subsidies on food and agricultural input in many countries, but also institutional reforms particularly with regard to agricultural state marketing monopolies, many of which were abolished with a view to increasing efficiency and reducing costs.

In the industrial sector, a growing number of African countries have adopted a package of incentive structures, typified by tariffs, licensing restrictions on imports, investment subsidies, revamped investment codes and interest rate and wage policies, etc., all of which are designed to encourage productivity and effective domestic resource use. The emphasis in most cases is on rehabilitation of existing industrial plants.

Currency devaluations have continued, notably in Sierra Leone, Ghana, Tanzania and Nigeria. In Nigeria, where a two-tier foreign exchange market was introduced as part of a medium-term adjustment programme, the devaluation was particularly drastic, with weekly auctions at the Second-tier Foreign EXchange Market resulting in a de facto devaluation of the naira by as much as 76.3 per cent against the US dollar by early October 1986. Although, the naira has since been picking up in value on the Second-tier Foreign Exchange Market in terms of the dollar, and a near-convergence in value now exists between the Second and First-tier Market rates, it is well below its pre-auction value.

Efforts to deal with the disequilibra in the domestic economies and ensure re-establishment of a stable financial situation have led many countries to continue to implement austerity measures, some at great political risks as the recent riots and violent demonstrations in Zambia fully show. Unfortunately, a number of factors combined during the year to exert a dampening effect on the success of the various financial policy packages adopted on the continent.

The continued depression of world commodity prices has had a decidedly negative effect on the revenues of many African governments. The oil producing African countries, in particular, were the most adversely affected in view of their overdependence on oil revenues. The increasing number of economic activities outside the mainstream of the official economy and the relatively lower volume of imports also negatively affected revenue performance. The overall effect of these factors was that, in 1986, there was a stagnation in the ratio of revenues to GDP.

As a result of the slow-down in revenue expansion, government expenditures in 1986 oustripped revenues in most African countries. This was in spite of the many efforts to curtail government expenditures, sometimes at the risk of social turmoil. Not surprisingly therefore, 1986 has witnessed a deceleration in the expansion of recurrent public expenditure. On the other hand capital expenditure has shown some signs of recovery in some of the countries.

C. Prospects for 1987

Economic prospects in 1987 appear quite uncertain. The most decisive factors are: (i) the weather situation; (ii) the external commodity markets, both in terms of demand and prices; (iii) the vigorous pursuance of domestic reforms and sound economic management by African countries; and (iv) the response of the international community to the commitments which they have entered into under the UN-PAAERD. Based on the behaviour of these variables, the ECA is working on two scenarios for 1987.

The weather conditions will in all probability remain favourable in 1987, and crop prospects and recovery in agriculture in 1986 maintained if not surpassed on account of the climatic factor alone. With continuing agricultural reforms and additional adjustment measures to be taken in support of agriculture, it is reasonable to expect a growth rate of between 3 and 4 per cent for the sector in 1987.

It is in the external sector that the prospects are not so bright, since the world market is likely to be characterized by falling prices in real terms and oversupply of most commodities, minerals and non-minerals alike, and external demand is expected to remain sluggish and weak in the face of dim prospects for significant recovery in the OECD countries. This will certainly depress exports and the export-dependent sectors in Africa.

In this context, our first scenario, based on assumptions of continuing improvement in food and agriculture production under the stimulus of good weather conditions and positive adjustment measures, but no significant recovery in the prices and demand for African exports except oil, is that the overall rate of growth of GDP would be between 2 to 2.5 per cent in 1987.

The second ECA scenario is decidedly more optimistic, based on the assumption that there will be a general improvement in the external environment in 1987 and that Africa, rather than having to go it alone in its efforts at relaunching economic recovery and development, will be greatly assisted by the international community through substantial increase in ODA and other aid for capital development, better commodity prices, both for minerals and non-minerals, and the provision of substantial debt

reliefs. It also assumes, as already indicated in the first scenario, that oil prices would range between $18 and $20 a barrel in 1987, thus boosting the economies of the oil exporters without seriously hurting the oil-importing countries. In such circumstances, the overall rate of growth of GDP in 1987 might range between 3 and 4 per cent.

D. The Way Forward from UN-PAAERD

It is thus crystal clear that the prospects for the African economies in 1987 and, indeed, thereafter will depend partly on the actions that African countries and governments take to pursue vigorously the implementation of APPER, and partly on the positive response of the international community in honouring the commitments entered into by them in UN-PAAERD.

For the African governments, there is a minimum policy package which every one of them must pursue relentlessly in 1987. This should include:

(a) a continuation of the reforms and process of recovery and development already initiated;

(b) intensification of efforts at domestic resource mobilization in spite of the constraints of limited taxable capacity and the prevailing background of depressed *per capita* incomes;

(c) structural transformation of agriculture in order to raise its level of productivity and production, and to ensure that the sector spearheads the growth and development process. Every government must in particuar aim to move closer to the realization of the investment target of 20-25 per cent of total public investment agreed to in APPER;

(d) continued efforts aimed at rationalizing public investment policies and improvement in the management of the economy. Here, particular attention would have to be paid to public management systems, institutions and practices; reform of public services; financial management; fiscal administration and public expenditure control with a view to promoting efficient use of resources and cutting on wastage and resource misallocation;

(e) better management of the foreign debt and external assistance in general, and the strengthening of measures aimed at restraining debt accumulation;

(f) consolidation of African cooperation by making more effective the mechanisms for promoting intra-African trade and economic integration, and by rationalizing the actions of African multinational institutions to make them more responsive to the challenges of development. In particular, the continent must move ahead with its plans for establishing the African Monetary Fund as an instrument through which the process of effective monetary and financial cooperation can be forged; and,

(g) intiation of earnest discussions and negotiations with development partners at the highest possible level with a view to giving concreteness and precision to the various commitments entered into in UN-PAAERD. Pressures must be exerted on donor countries and multilateral financing institutions to honour these commitments.

Similarly, the international community must see 1987 as the year of great challenge and opportunity for them to match their expressed concerns about Africa's economic recovery with concerete deeds by taking all appropriate actions to implement UN-PAAERD. In particular they should:

(a) give support, on a sustained and sustainable basis, to Africa's policy reforms measures. These measures are full of political risks and unless they are fully underwritten may become economically and politically counter-productive. The international community have a responsibility to ensure that this does not happen;

(b) improve the quality and modality of external assistance and cooperation;

(c) institute such debt relief measures as conversion of ODA debts and interest into grants; consolidation of non-ODA official debts into concessional long-term loans; and, improvement in the existing framework for debt obligation; and,

(d) improve the external environment through policy measures such as elimination of protectionism and other external constraints that aggravate Africa's position; creation of improved market access, especially for tropical products; and encouragement of African diversification programmes.

In conclusion, I will like to end this statement by reiterating the point I made before that the year 1986 saw the beginning, albeit haltingly, of an African economic recovery. About 30 African countries experienced for the first time in several years, growth rates in their

GDP of 3 per cent and above. Unfortunately, nine countries which incidentally happen to be the larger ones economically, continued to experience a negative growth rate. There is little doubt that as the major economies rebound and stay on course, the impact of recovery will become more evident and pervasive continentally and the required momentum will be generated. What is essential for 1987 therefore is for the international community to wholeheartedly support the on-going process of reforms and development on the continent and for the African people and governments not to relax in their effort - if anything, to intensify such effort.