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ECONOMIC COMMISSION FOR AFRICA

SURVEY OF ECONOMIC AND SOCIAL CONDITIONS IN AFRICA, 1978-1979

PART II

COUNTRY ECONOMIC SURVEYS

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## BENIN

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978-1979

#### 1. Introduction

Benin experienced better weather conditions in 1978. Although there was a further decline in cash crop production during the year, food crops, livestock and fishing performed fairly well and GDP at current prices increased by 11.4 per cent. In real terms the rate of economic expansion was estimated at 5.5 per cent reflecting a rate of increase in prices of 5.5 per cent judging by the implicit GDP deflator.

The resource gap increased further in 1978 as gross domestic expenditure continued to rise faster than gross domestic product and a heavy reliance on external aid and capital was necessary.

Expenditure on ongoing development projects was maintained at a high rate in 1979. A higher production of cash crops and continued increases in manufacturing, commerce, construction and government services were forecast. The rate of growth in real GDP attained in 1978 was therefore expected to be maintained in 1979.

#### 2. GDP by industrial origin

Table 1 provides details on GDP by industrial origin. The rise in nominal GDP in 1978 resulted from higher production in all the sectors. Despite a further decline in the output of cash crops, output in agriculture and related activities rose by about 6.6 per cent in 1978. Value added in the manufacturing sector expanded by 25.5 per cent in current terms while commerce, transportation and other services, the latter including public administration, also rose at relatively high rates.

In 1978 agriculture, forestry and fishing was still the dominant economic activity with its share in GDP of 40.7 per cent but commerce in second place had raised its proportion to 25.3 per cent. The services sector contributed 13.3 per cent of GDP in that year.

Benin: Table 1. GDP by source, 1975 to 1978 (millions of CFA francs)

At current prices	1975	1976 <u>a/</u>	1977 <u>a/</u>	1978 <u>a/</u>
Agriculture, forestry, fishing	38 983	50 050	56 500	60 228
Manufacturing and crafts	9 567	9 880	10 100	12 880
Electricity and water	763	790	826	888
Building and construction	4 606	4 810	4 920	5 560
Commerce	26 081	29 560	33 500	37 400
Transport and communication	7 932	8 820	9 500	11 360
Services	15 244	15 101	17 410	19 700
Total GDP at factor cost	103 176	119 011	132 756	148 016
Indirect taxes less subsidies	9 604	14 503	15 724	13 600
Total GDP at market prices	112 780	133 514	148 480	161 616

Source: Benin: Institut National de la Statistique et de l'Analyse Economique (INSAE).

a/ Provisional.

### 3. Selected economic sectors

(a) Agriculture, forestry, fishing. The past two seasons have witnessed considerable improvements in weather conditions. The acreage under food crops expanded substantially and consequently output of the most important crops increased after a period of decline in 1975/76 and 1976/77. Total production of cereals rose to a level of 338,000 tonnes in 1977/78 and further to 390,000 tonnes in 1978/79. Production of cassava and yams which totalled 1,213,600 tonnes and 1,176,500 tonnes respectively in 1976/77 and 1977/78, rose to 1,399,000 tonnes in 1978/79.

Of Benin's major export crops namely palm products, cotton and groundnuts, only the output of groundnuts has increased steadily since 1975. Palm production has been severely affected by insufficient rainfall in recent years and marketed output of palm oil has declined sharply while that of palm kernels has remained stagnant. Cotton production has in addition to erratic rains, been hampered by inadequate supplies of fertilizers and insecticides. Average yields have consequently fallen.

The livestock population is estimated to have increased in 1978 with the total cattle population rising by 2 per cent to 740,000, sheep and goats by 3 per cent to 907,000 and 874,000 respectively and pigs by 4.5 per cent to 420,000. There has therefore been a growth in domestic supply of livestock products but the imports of meat and dairy products have also risen in line with the rise in urban demand.

Benin: Table 2. Agricultural production, 1975/76 to 1978/79 (tonnes)

	1975/76	1976/77	1977/78	1978/79
<u>Food crops</u>				
Millet and sorghum	66 900	75 840	81 000	89 000
Rice (paddy)	13 000	18 600	15 000	16 000
Maize	216 500	181 700	242 000	285 000
Cassava	461 400	623 600	624 500	715 000
Yams	444 800	590 000	552 000	684 000
<u>Export crops</u>				
Palm kernels	83 000	83 500	84 000	...
Cotton	22 400	21 800	16 100	20 000
Groundnuts	34 600	61 100	66 500	65 200
Coffee	600	550	500	600
Cocoa	1 700	1 065	1 090	...
Tobacco	1 200	326	400	700

Source: National data from Benin.



The total fish catch continued to decline in 1978 when it was estimated at 25,000 tonnes compared with 30,870 tonnes in 1970. The decline is due partly to deficiency in the equipment for industrial fishing and the penetration of saline water into fresh water lagoons. Imports of fish have been necessary in recent years to supplement domestic supplies; imports of frozen fish amounted to 7,000 tonnes in 1978 down from the peak level of 12,500 tonnes attained in 1976. The decline was due to irregular deliveries.

(b) Manufacturing. Vegetable oil and fats processing makes up the most important activity in the manufacturing sector. It is followed by textiles and the beverage industries. Smaller branches of the sector include food processing, bakeries, a cashew nut processing factory, mechanical workshops, furniture making, and printing.

The decline in the output in palm products in recent years has seriously affected the level of activity in the processing mills. Total production of palm oil by the two processing public enterprises was 10,527 tonnes in 1977/78 down from 13,467 tonnes in 1976/77. Palm kernel oil production also declined to 5,337 tonnes in 1977/78 from 22,190 tonnes in 1976/77.

Textile production is carried out by the Société Beninoise de Textile (SOBETEX) and the Industries Beninoise de Textiles (IBETEX). In 1977/78 SOBETEX increased its level of output to 18.3 million metres of fabric from 17.5 million metres in 1976/77. A substantial part of SOBETEX's output is exported to Nigeria. Data on IBETEX's level of production in 1977/78 are not available.

Beer production rose to 230,000 hl and carbonated beverages to 80,000 hl in 1978 compared with 150,000 hl and 70,000 hl respectively in 1977. Total production capacity is now 300,000 hl per annum for beer and 180,000 hl for carbonated beverages. There are plans to expand capacities further.

(c) Electricity. Benin imports most of its supply of electric power from the Volta River Authority's Akosombo Dam in Ghana. In 1978 consumption of electricity rose to about 70 million kWh from 68.1 million kWh in 1977 and 54.1 million kWh in 1976. In 1978 about 50 per cent of total electricity consumed was for industrial purposes.

(d) Transport services. As shown in table 3 total goods loaded at the port of Cotonou declined for the third year in 1978. The steady decline in goods loaded at the port in recent years has been due to the fall in the output of palm products. The volume of palm products loaded in 1978 dropped to only 8,700 tonnes compared with 37,200 tonnes in 1977 and 37,250 tonnes in 1976. On the other hand, goods unloaded have maintained their rapid rate of increase in 1978 reflecting the continuing importance of Cotonou as a transit point for goods destined for Nigeria and Niger. There was, however, a sharp decline in traffic destined to Nigeria in 1978 as extension works at the port of Lagos were completed. This traffic is nevertheless expected to pick up soon as congestion builds up again at Lagos. The traffic to Niger rose strongly in 1978 and is expected to continue to rise further especially as that country is experiencing buoyant economic conditions.

Benin: Table 3. Selected transport indicators, 1975 to 1978

	1975	1976	1977	1978
<u>Port of Cotonou</u>				
Freight loaded (thousand tonnes)	108.1	128.2	73.4	49.7
Freight unloaded (thousand tonnes)	647.2	784.4	978.7	1 006.0
<u>Railways</u>				
Freight (million tonne/km)	127.3	124.0	137.8	155.1
Passengers (million passenger/km)	96.7	119.1	120.6	128.5
<u>Cotonou Airport</u>				
Passengers handled (thousand)	77.6	92.7	98.2	100.0 a/
Freight (tonnes)	3 254.0	3 413.0	3 645.0	4 200.0 a/

Source: BCEAC, Indicateurs Economiques, No. 227, April 1975, Statistiques Economiques et Monetaires, No. 271, April 1979.

a/ Estimates based on 9 months figures.

Railway freight and passenger traffic grew strongly in 1978 with the faster growth taking place in freight. The latter increased by 16 per cent to 155 million tonne-km while passenger traffic reached 128.5 million passenger-km compared with 120.6 million in 1977 and 119.1 million in 1976.

Both passenger and freight traffic through Cotonou Airport has been increasing significantly in recent years. A national airline, Air Benin, started operating in 1979.

#### 4. Expenditure and the GDP

Data on the components of gross domestic expenditure are not complete for the years after 1975. Over the period 1975-1978, however, gross domestic expenditure increased at a faster rate than gross domestic product reflecting the rapid expansion taking place in private consumption and gross investment. As can be seen from the external trade figures shown below, the resource gap has widened significantly since 1975. The requirement for a greater inflow of resources continued to rise in 1978.

#### 5. External trade and balance of payments

As shown in table 4, data on Benin's external merchandise trade on a customs statistics basis are available through 1975 in final form and are provisional for 1976 and 1977. There is a large volume of unrecorded trade, particularly exports, which sometimes exceeds the recorded trade.

Oil palm products and cotton are the leading export items. In 1977 they accounted for 51 per cent of total recorded exports compared with 63 per cent in 1976. In 1977 the value of palm product exports dropped by 27 per cent due to the effects of the 1976 drought which reduced the quantity exported by 50 per cent. A further decline was forecast for 1978 but some recovery was expected in 1979. Cotton exports rose in both 1976 and 1977 as a result of strong price increases. A significant increase was forecast for 1979 as prices improved further and a reversal of the declining trend in cotton output took place.

Benin: Table 4. External trade and balance of payments, 1975 to 1977 (billions of CFA francs)

	1975	1976 <u>a/</u>	1977 <u>a/</u>
<u>External trade</u>			
Exports <u>b/</u>	6.79	5.54	7.64
Imports	42.08	52.21	60.35
Balance	-35.29	-46.67	-52.71
<u>Balance of payments</u>			
Goods and services (net)	-25.80	-23.99	...
Private transfers (net)	3.90	-4.66	...
Government transfers (net)	10.52	6.74	...
Capital (net)	2.21	5.88	...
Reserves and related items	4.39	-1.29	...
Errors and omissions	4.78	8.03	...

Sources: Official data for external trade as quoted in BCEAO Statistiques, Economiques et Monetaires, No. 271, April 1979 and IMF: International Financial Statistics, vol. XXXII, No. 9, September 1979, (figures relating to balance of payments converted from United States dollars).

a/ Provisional.

b/ Estimates including unrecorded trade as shown in last year's survey put total exports in 1977 at about CFAF 26 billion.

The fastest rates of growth of imports in the past few years were recorded for imports of food, beverages and tobacco, the total value of which more than doubled between 1974 and 1977 raising their share in total imports from 17 to 22 per cent during this period. However, it is believed that the value of food imports declined sharply in 1978 as a good maize harvest helped reduce the need for cereal imports. The share of capital goods imports in the total has been declining and was about one third of total imports in 1977.

Official balance of payments data are available only through 1976. In that year the balance of payments moved into a surplus as substantial gains were realized in the services account and in net private and official transfers which offset the large deficit in the trade balance. There are indications that some further improvements in the services account were registered in 1977 and 1978. The inflows of both private and government transfers also increased substantially in these years. However, these would not have been sufficient to cover the deficit on the merchandise account which must have widened substantially in 1977 and 1978. The over-all balance of payments are thus believed to have been in near equilibrium in 1977 but swung into deficit again in 1978 when net foreign assets fell by CFAF 6.08 billion.

## 6. Development aid and external debt

Sharp increases have been realized in Benin's total foreign assistance reflecting both the rise in capital grants and increased borrowing by the Government, the state enterprises and the national development bank.

The total external public debt rose from CFAF 28,091 million at the end of 1977 to CFAF 36,500 million at the end of 1978 or by about 30 per cent. The debt service payments reached CFAF 1,600 million in 1978 which compared with the level of officially recorded trade means that they represent a high proportion of such export earnings.

## 7. Government revenue and expenditure

Table 5 provides data on central government budget estimates. Official data on central government transactions are not available in a consolidated form owing to the fragmented nature of public financial operations.

There are indications that some successful attempts to control expenditure have been made in recent years but budgetary deficits have been realized annually since 1976. Since the Government itself has for a number of years been in a net creditor position with the domestic banking system, external government borrowings have generally exceeded the budget deficits in the past few years. The figure of net deposits by the Government in the banking system increased sharply in 1977 but fell by CFAF 1.3 billion in 1978.

Benin: Table 5. Government revenue and expenditure, 1975 to 1978 (millions of CFA francs)

	1975	1976 <u>a/</u>	1977 <u>a/</u>	1978 <u>a/</u>
Recurrent revenue	13 737	16 080	19 250	23 200
Recurrent expenditure	14 479	16 080	19 250	23 200
Balance	-742	...	...	...

Source: BCEAO, Statistiques Economiques et Monetaires, No. 263, July 1978, and No. 271, April 1979.

a/ Estimates only.

## 8. Money and banking

In 1978 the money supply including quasi-money rose by 2 per cent compared with 13.7 per cent in 1977. This contraction in the rate of expansion of money was to a large extent due to the substantial decrease in the level of net foreign assets. The latter dropped from CFAF 6.27 billion in 1977 to CFAF 0.19 billion in 1978. Private sector credit increased by about 20 per cent in 1978 compared with 17 per cent in 1977, the drop in the rate of growth reflecting the reduction in cash crop output and hence lower demand for crop financing. The Government net creditor position with the banking system declined in 1978 to CFAF 4.92 billion.

Figures to March 1979 show a very sharp recovery in net foreign assets to CFAF 8 billion accompanied by a substantial rise in Government net deposits in the banking system. Private sector credit has risen and over-all money and quasi-money rose by 12.1 per cent compared with December 1978 and 29.3 per cent over March 1979.

Benin: Table 6. Monetary survey, 1975 to 1979 (billions of CFA francs)

	End 1975	End 1976	End 1977	End 1978	March 1979
Net foreign assets	5.32	6.59	6.27	0.19	8.00
Domestic credit					
Net claims on Government	-2.94	-2.30	-6.22	-4.92	-13.20
Claims on private sector	32.60	32.10	37.60	45.10	52.50
Money	26.88	27.63	29.22	31.01	35.23
Quasi-money	4.99	5.00	5.60	8.00	8.50
Other items (net)	2.42	4.80	1.93	0.46	3.57

Source: IMF, International Financial Statistics, vol. XXXII, No. 10, 1979.

#### 9. Wages and prices

The minimum wage rates for both industrial and agricultural workers have not been raised since 1974 when wages were increased by 14 per cent to CFAF 45. Civil servants have received no general salary increase since 1961 and their income has been declining relative to the private and semi-public sectors.

The real income of farmers and other self-employed persons in commerce appears to have been increasing reflecting the lucrative unrecorded trade in agricultural and other products with Nigeria. The rural-urban gap seems thus to have narrowed in the present decade.

There is no up-to-date consumer price index. There is a system of price control and subsidies for many essential imported and locally manufactured goods. Available information on prices indicate that prices for domestic foodstuff rose sharply in the first half of 1977 due to foodstuff shortages following the 1976 drought. These prices have declined since after the good food crop harvest of 1977/78.

The estimated implicit GDP deflator based on very incomplete data suggests that the rate of increase in prices was 5 per cent in 1978 compared with 8 per cent in 1977 and 11 per cent in 1976.

#### 10. Employment and unemployment

Of Benin's estimated total active population of 1.6 million in 1977, only 3.5 per cent or 56,000 were wage earners. The remainder was engaged in farming, trade or crafts. The public sector employs the majority of wage earners but private sector paid employment increased to 20.4 per cent of the total in 1977 compared with 17 per cent in 1975.

Unemployment is substantial in the urban areas but it appears to be less of a problem in Benin than in neighbouring countries.

#### 11. Other social sectors:

(a) Education. In 1977, the total primary school enrolment was 307,000 and the secondary school enrolment was 50,000. There is a ten-year education plan which aims at universal primary education and satisfaction of national requirements for qualified manpower.

(b) Health. There are some 2,593 hospital beds and 263 clinics and dispensaries serving rural area. Official government policy is to develop mass medicine through education and to promote the use of traditional medicines.

#### B. MAJOR PROBLEMS AND POLICIES

The reorganization of the agricultural sector so as to strengthen its role in the economy, ensure self-sufficiency in food, and eliminate progressively the importance of foodstuffs is perhaps the most difficult challenge facing the country. The Government's concern with this challenge is reflected in the substantial investment in agriculture included in the current development plan. Projects in this area aim primarily at harnessing the country's water resources with a view to minimizing the impact of irregular rainfalls. Major efforts are being made to improve yields and diversify crop production. In addition a number of specialized public agencies have been created in recent years to promote the agricultural sector. Thus the Caisse Autonome de Credit Agricole (CNCA) now extends credit to state enterprises and the Regional Action Centers for Rural Development are major executing agencies in agriculture. An agricultural price stabilization fund (Fonds Autonome de Stabilization), has also been set up to protect producers against fluctuations in export crop prices and provides subsidies for imports of fertilizers and pesticides.

Concerning the organization of farmers, there is a policy to group individual farmers into economically viable small groupings through the "Groupements Villageois". The groups which have essentially been service co-operatives are evolving into productive co-operatives.

In agriculture as in other sectors, considerable delays are being experienced in starting and completing development projects. At a conference convened in October 1978 to review the first year of execution of the three year plan, 1977/78-1979/80, it was reported that the start of several vital projects had had to be postponed partly because of delays in procuring external finance and partly because of administrative shortcomings and the lack of project planning expertise. In spite of this in 1979 expenditure on ongoing projects was continuing at a high level and considerable economic expansion was expected to take place during the year.

## BOTSWANA

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978-1979

#### 1. Introduction

The GDP figures given below show that 1977/78 (July to June) was a year of little or no economic growth. The value of output from agriculture fell at current prices because of the outbreak of foot and mouth disease and its impact on the livestock industry. This also had an effect on value added by the meat factory in the manufacturing sector and value added for this sector was also reduced. These reductions caused lower over-all growth in GDP growth which stemmed from advances in all other economic sectors. Measured at current factor cost, GDP rose by only 7.9 per cent in 1977-78 which, when allowance is made for inflation, means a fall at constant prices.

In 1978 the value of exports rose by 23 per cent despite a large fall in earnings from meat and meat products. There was a rise of 28 per cent in exports of copper-nickel matte and one of 64 per cent to 79.3 million Pula in exports of diamonds. Imports increased much more rapidly than exports so the trade deficit widened to P. 114.4 million. Despite this large deficit the net inflow of transfers and capital was such that an over-all surplus of P. 32.5 million was recorded in the balance of payments.

For 1978/79 GDP at current prices will have risen substantially from mining and significantly in manufacturing due to the recovery in cattle slaughterings at the Botswana Meat Commission. The transport sector benefited from much higher rail traffic and construction activity was probably at a substantially higher level. The wholesale and retail trade and services sectors will also have grown in line with the rise in imports and increased government expenditure. However, crop production fell to its lowest level for many years and this had its own impact on the agricultural sector. On balance a rise of about 20 per cent at current prices is indicated for 1978/79 and one of 6 to 8 per cent at constant prices.

The prospects for the year 1979/80 are for a further rise in the output of the mining sector, a recovery to some extent in crop production but probably a more difficult year in the livestock sector. Construction is likely to see a further advance as will wholesale and retail trade and services. In this year the increase in GDP at current prices, could be around 18 per cent while at constant prices it may be about 4 per cent.

#### 2. GDP by industrial origin

The latest official estimates are for 1977/78 and for this year GDP at current prices is provisionally estimated at P. 291.5 million, a rise of 7.9 per cent over the level of 1976/77 and 57.6 per cent more than in 1974/75. The poor agricultural season in 1977/78 caused falls in the contribution to GDP by both the agriculture and manufacturing sectors which offset to some extent the increases recorded in all other sectors shown in table 1.

Because of a substantial rise in indirect taxes net of subsidies, the increase in the GDP measured at current market prices in 1977/78 was 12.0 per cent, a little less than the increase of 13.0 per cent recorded in 1976/77.

Inflation measured by the cost of living (consumer prices index) was 13.7 per cent in the year to March 1977 and 10.0 per cent between March 1977 and March 1978 which would suggest little real growth in GDP in both years 1976/77 and 1977/78.

In 1977/78 itself 20.0 per cent of GDP was contributed by agriculture, 14.9 per cent by mining and 21.4 per cent by wholesale and retail trade. The services sector including Government services contributed 30.6 per cent. The increases in the relative shares of GDP from mining, wholesale and retail trade and services have been particularly marked since 1974/75. In that year agriculture's share of GDP was 30.1 per cent and that of mining only 7.5 per cent.

Botswana: Table 1. GDP by source, 1974/75 to 1977/78 (millions of Pula)

	1974/75	1975/76	1976/77	Provisional 1977/78
<u>At current market prices</u>				
Agriculture	61.2	64.2	72.5	66.8
Mining and quarrying	15.2	33.9	41.4	49.5
Manufacturing	15.5	20.9	25.3	21.9
Electricity and water	6.9	11.1	9.2	10.5
Construction	20.1	18.8	15.3	18.3
Wholesale and retail trade	34.3	42.5	55.2	71.3
Transport and communications	5.5	7.6	1.5	7.3
Other services	44.6	64.3	77.0	102.0
GDP at market prices	203.3	263.3	297.4	333.2
Less indirect taxes (net)	18.3	22.6	28.3	41.7
GDP at factor cost	185.0	240.7	270.1	291.5

Source: Republic of Botswana, Statistical Bulletin, Vol. 4, No. 3, September 1979. (Government Printer, Gaborone).

### 3. Selected economic sectors

(a) Agriculture, forestry, fishing. Virtually all activities in this sector are from crop production and the rearing of livestock, the latter being by far the most important. Livestock production suffered in 1978 in particular from an outbreak of foot and mouth disease in certain parts of the country which prevented the movement of stock from those areas to the abattoir at Lobatse in the South. The number of cattle slaughtered by the Botswana Meat Commission was 211,987 in 1976, 196,850 in 1977 and only 149,346 in 1978. In the first nine months of 1979 there was a marked recovery with 212,567 cattle slaughtered although this figure will be near the total for the year as a whole.



Crop production in 1978/79 was very much reduced from levels from levels recorded in 1975/76 to 1977/78. This was because rainfall in 1978/79 was generally much lower than the long-term seasonal norm in all parts of the country.

Botswana: Table 2. Crop and livestock production, 1975 to 1979

	1975/76	1976/77	1977/78	1978/79	
Maize (thousands of tonnes)	62.6	35.4	26.7 <u>a/</u>	2.3 <u>a/</u>	
Sorghum (thousands of tonnes)	55.6	33.1	36.8 <u>a/</u>	4.3 <u>a/</u>	
Millet (thousands of tonnes)	...	4.1	...	0.9 <u>a/</u>	
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Cattle slaughtered by BMC (thousands)	188	212	197	149	213 <u>b/</u>

Source: Republic of Botswana, Ministry of Agriculture. And as table 1.

a/ Provisional.

b/ First nine months.

(b) Mining. The index of mineral production shows a rise from 104 in 1977 (1976 = 100) to 123 in 1978 and 143 for the first nine months of 1979. In the third quarter of 1979 this index measured 151. The main reason for the rapid advance in 1978 was the increase on production of copper/nickel matte from 30,772 tonnes to 39,516 tonnes while in 1979 diamond outout probably increased by 50 per cent from 2,799,000 to 4,150,000 carats. As reported in previous surveys in this series, diamonds are mined at Orapa and Lethakane, coal at Moropule and copper/nickel at Pikwe.

Botswana: Table 3. Outout of major minerals 1975 to 1979

	1975	1976	1977	1978	1979 <u>a/</u>
Coal (thousands of tonnes)	71.2	224.1	294.0	314.5	359.0
Diamonds (thousands of carats)	2 414	2 361	2 691	2 799	4 150
Copper/nickel matte					
Copper content (tonnes)	6 504	12 473	11 783	14 614	14 150
Nickle content (tonnes)	6 447	12 581	12 099	16 109	16 000
Index of mining production					
1976 =100	70	100	104	123	143 <u>b/</u>

Source: As table 1.

a/ Estimates based on nine months production.

b/ First nine months only.

A new diamond mine at Jwaneng is expected to be in production in 1982. Phase II of the Selebi/Pikwe Project is also being developed to increase output of copper and nickel.

The estimated value of production of output of these major minerals was P 52.4 in 1975, P 93.7 million in 1977 and P 132.6 million in 1978. In 1979 because of higher output and increased prices the estimated value of production could be as high as P 221 million or more than four times the level of 1975.

(c) Manufacturing. The importance of the BMC abattoir at Lobatse is reflected in the figures of value added for GDP given earlier in table 1. Because there was a substantial fall in the number of cattle slaughtered in 1977/78 the value added by manufacturing industry at current market prices fell by 13.4 per cent to P 21.9 million; the fall at constant prices would have been even greater. For 1978/79 cattle slaughtering at BMC in the year to March were 188,600 head compared to 171,900 slaughtered in the previous year. This must mean some recovery in the contribution of manufacturing industry to GDP in 1978/79. During the second half of 1978 the Cannery and the Tannery built at the BMC factory site came into production.

(d) Electricity: Output has risen rapidly this decade in line with the power requirements of the new mining ventures. Since 1975 growth has been substantial and total electricity generated was 269.7 million kWh in 1975 but 408.2 million in 1978. In 1979 output was running at an annual rate of about 460 million kWh in the first nine months of the year. The major source of output in 1979 was the Shashe division of the Botswana Power Corporation based on thermal production from the coal mined at Moropule. This division will have produced about 70 per cent of Botswana's electricity in 1979.

Electricity generated	1975	1976	1977	1978	Estimated 1979
(million kWh)	269.7	332.2	347.8	408.2	460.0
Index	100.0	123.5	129.0	151.4	170.6

(e) Construction. Measurement by the value added for GDP at constant prices shows there was a fall in the years from 1974/75 to 1976/77 but some recovery in 1977/78. Figures for building plans passed in Gaborone, Francistown and Sebibi-Phikwe suggest that construction activity expanded further in 1978/79 and this supposition is confirmed by the substantial rise in development fund expenditure from P 44.4 million in 1977/78 to P 79.0 million in 1978/79.

(g) Transport services. After years of relative stagnation, there was a large rise in traffic handled by the railways in 1979. This was to some extent a result of a switch in Zambia traffic to the southern railway routes to the coast. In the first half of 1979 freight handled rose by 48 per cent over the level recorded in the same period of 1978 while the number of passengers carried increased by nearly 30 per cent.

Botswana: Table 4. Selected transport indicators, 1975 to 1979

	1975	1976	1977	1978	1979
<u>Railways</u>					<u>Jan.-June</u>
Freight (million tonne/km)	1 091	1 199	1 056	1 043	727
Passengers (thousand)	569	545	458	447	253
<u>Roads</u>					
Commercial vehicles (thousand)	6.69	7.80	11.71 a/	10.72 a/	...
<u>Airports</u>					
Passengers handled (thousands)	...	153.4	208.2	178.2	281.5

Source: As table 1.

a/ Light delivery vehicles and lorries.

However, there was no similar increase in the total number of passengers handled at the country's airports which had fallen by 14 per cent in 1978 and by a further 14 per cent in the first half of 1979.

Registration of commercial motor vehicles fell in 1978 probably for the first time this decade but there was a substantial advance in 1979 based on figures for the first eight months of the year.

Expenditure on various important road projects continued at a high level in 1978/79 and 1979/80. The more important projects measured by budgeted expenditure were the Gaborone-Molepolole Road, the Botswana-Zambia Road, the Mahalapye-Serule Road the Serule-Francistown Road and the Kanye-Lobates Road. Substantial funds were also allocated in both years for rural roads.

(g) Tourism. The number of departing visitors excluding those travelling by train rose from 150,400 in 1976 to 179,500 in 1977. They spent a total of P 6.49 million and P 7.72 million respectively. In 1978 including visitors leaving by train the total was 179,500 and their expenditure was P 8.84 million. Making allowance for some 13,500 departures by train in 1978 it seems clear that visits to Botswana declined in 1978. However, figures of departing visitors for the first five months of 1979 show a market advance on the same period in 1978.

#### 4. Expenditure and the GDP

The latest data include those for the year 1977/78; between 1974/75 and 1977/78 expenditure on gross fixed capital formation rose by 91.5 per cent, that on private consumption by 78.8 per cent and on public consumption by 114.0 per cent. Over this same period GDP at current market prices increased by 63.9 per cent so there was an

increased recourse to foreign resources to bridge the gap between GDP and total expenditure. The details are given in table 5. The net inflow of resources represented by the surplus of imports over exports was P 55.8 million in 1974/75 and P 95.3 million in 1977/78. These figures are equal to 27.4 per cent and 28.6 per cent respectively of the GDP.

Botswana: Table 5. Expenditure and the GDP, 1974/75 to 1977/78 (Millions of Pula)

	1974/75	1975/76	1976/77	1977/78
<u>(At current prices)</u>				
Private consumption	123.9	154.5	191.5	221.5
Public consumption	39.2	50.6	71.9	83.9
Gross fixed capital formation	56.8	79.1	77.8	108.8
Change in stocks	44.8	35.1	20.1	14.3
Exports <u>less</u> imports of goods and services	-55.8	-57.3	-63.9	-95.3
GDP at market prices	203.3 <u>a/</u>	263.3 <u>a/</u>	297.4	333.2

Source: As table 1.

a/ There are statistical discrepancies of -5.6 million and 1.2 million respectively.

When allowing for changes in stocks, total investment expenditure was equal to 50 per cent of GDP in 1974/75, 43.4 per cent in 1975/76, 32.9 per cent in 1976/77 and 36.9 per cent in 1977/78. These are all very high figures but were only financed to a very limited extent from domestic savings, a much larger proportion was funded externally. In 1977/78 while investment represented 36.9 per cent of GDP, domestic savings were equal to only 8.3 per cent. In 1974/75 domestic savings had been 19.7 per cent of GDP.

#### 5. External trade and balance of payments

The growth in the value of exports since 1975 has been due to the rise in shipments of diamonds and copper-nickel matte both in terms of volume and value. Diamonds in 1978 were valued at P 79.3 million and copper-nickel matte at P 52.6 million. Exports of meat and meat products grew substantially in 1976 but fell in both years 1977 and 1978. In the first half of 1979 there was a sharp advance in exports of these meat products and at the same time the value of diamonds exports was running at a level more than twice that of 1978; copper-nickel matte also earned more. It seems likely that exports for 1979 will be in the region of P 350 million or 80 per cent more than in 1978.

As for imports, these have also risen rapidly being valued c.i.f and including duty at P 307 million in 1978 compared with P 159 million in 1975. In 1979 total imports will probably exceed P 400 million. The breakdown of imports for 1978 shows that P 56 million was for food, drink and tobacco, P 27.1 million for fuels, P 47.2 million for machinery and P 38 million for transport equipment. A further P 30 million was spent on textiles, clothing and footwear.

Botswana: Table 6. External trade and balance of payments 1975 to 1979  
(millions of Pula)

	1975	1976	1977	1978	Jan.-June 1979
<u>External trade</u>					
Exports	105.0	153.2	156.7	192.7	184.9
Imports <u>a/</u>	159.3	181.4	239.6	307.1	197.3
Balance	-54.3	-28.2	-82.9	-114.4	-12.4
<u>Balance of payments</u>					
Goods and services (net)	...	-50.1	-57.6	-103.3	-27.4
Private transfers (net)	...	4.8	5.2	5.3	3.1
Government transfers (net)	...	45.7	74.2	62.2	44.1
Capital	...	24.8	2.3	69.4	31.9
Reserves and related items	...	-16.4	-14.4	-32.5	-57.7
Errors and omissions	...	-8.8	-9.6	-1.1	6.0

Source: as table 1.

a/ Includes duty.

The balance of payments has recorded an over-all surplus in each of the years 1975 to 1978 and the country's foreign reserves have been substantially augmented. The large deficits on goods and services account have been covered by Government transfer receipts and an inflow of capital. For 1979 there was a reduction in the deficit for goods and services in the first half of the year and as the net inflow of both transfers and capital continued at a high level, foreign reserves rose once again, this time very substantially.

#### 6. Development aid and external debt

Net transfer receipts of the Government as shown in the balance of payments statistics have been running at a high level since 1975. In 1978 they were valued at P 61.7 million and in the first half of 1979 at P 39.5 million. Over this same period there has been an outflow of capital on government account so the level of the country's public external debt has been reduced. However, the substantial inflow of private capital has raised the level of investment income payments abroad and in 1978 these were P 30.3 million and will be higher in 1979.

Public debt servicing which was P 4.42 million in 1975/76 was budgeted at P 10.94 million in 1979/80. This latter figure includes P 4 million for a debt servicing fund.

## 7. Government revenue and expenditure

Recurrent revenue doubled between 1975/76 and 1979/80 but recurrent expenditure grew at a faster rate. However, the projected surplus on recurrent account in 1979/80 is set at P 42 million compared with P 30 million in 1975/76. Development expenditure has risen at about the same rate as recurrent expenditure and the total for 1979/80 is P 91.8 million, more than two and a half times the figures of P 35.4 million for 1975/76.

The high rates of growth in expenditure both recurrent and capital have meant that the over-all financing requirement has risen rapidly. A total of P 49.8 million was required for 1979/80 and as in earlier years the bulk of this will probably have been obtained externally, mainly from foreign grants.

Botswana: Table 7. Government revenue and expenditure, 1975/76 to 1979/80  
(millions of Pula)

	1975/76	1976/77	1977/78	1978/79 <u>a/</u>	1979/80 <u>b/</u>
Recurrent revenue	79.5	71.6	100.9	137.4	166.6
Recurrent expenditure	49.5	68.0	75.8	101.6	124.6
Recurrent surplus	30.0	3.6	25.1	35.8	42.0
Development expenditure	35.4	37.6	44.4	79.0	91.8
Over-all financing requirement <u>c/</u>	5.4	34.0	19.3	43.2	49.8

Source: As table 1 for 1975/76 to 1978/79. For 1979/80 Republic of Botswana: details to support 1979/80 estimates of expenditure from the consolidated and development funds (Government Printer, Gaborone).

a/ Provisional.

b/ Budget estimates.

c/ Appears to have been financed largely from external resources.

In 1979/80 the two main revenue items were mineral revenues and the common customs pool; in 1978/79 these two headings had yielded revenue of P 23.8 million and P 49.8 million respectively (this latter figure includes excise duties) while income tax produced P 36.0 million.

The major recurrent expenditure headings in 1979/80 are education with P 26.9 million, works and communications, P 19.1 million, and the Office of the President, P 17.1 million. A further P 10.9 million out of the total of P 124.6 million was for public debt servicing and includes P 4 million to the debt servicing fund. The larger expenditure headings in the development budget are for works and communications, P 25.2 million, local government and lands P 16.1 million, the Office of the President, P 11.6 million, finance and development planning, P 11.1 million, and education P 11.0 million.

In 1979/80 steps were being taken to expand the scope of income tax; budget proposals include making all royalties and management fees payable by residents chargeable to income tax and deducting an advance of 15 per cent tax from dividends paid by domestic companies to resident shareholders. It was also proposed to increase the tax relief on approved training of citizen employees from 125 to 200 per cent of the cost of such training. It is accepted that there is a need to provide vertical equity within the over-all taxing scheme for individuals.

#### 8. Money and banking

The massive build-up of net foreign assets is the main feature of the monetary aggregates since 1975. These totalled P 203 million at August 1979. Over the same period the Government has been increasing its net deposits in the banking system so they rose to P 70.9 million at August 1979 having been P 57.1 million at December 1978 and P 39.8 million at the end of 1977. Private sector credit fell in 1979 and the increases in both 1977 and 1978 were only small so the major influence on the money supply has been the movement of net foreign assets. As shown in table 8 money proper rose by 33.8 per cent in 1977 and by 4.7 per cent in 1978; there was a further increase of 22.9 per cent in the first eight months of 1979. Including quasi-money the rates of increase were 26.0 per cent, 11.5 per cent and 50.0 per cent respectively. The very large rise in the first eight months of 1979 is largely due to a massive movement of funds into deposit accounts.

Botswana: Table 8. Monetary survey, 1975 to 1979 (Millions of Pula)

	End 1975	End 1976	End 1977	End 1978	August 1979
Net foreign assets	...	64.69	83.15	124.63	203.07
Domestic credit					
Net claims on Government	.....	-40.19	-39.84	-57.06	-70.46
Claims on private sector	52.63	67.67	72.27	74.53	70.92
Money	...	43.52	58.21	60.94	74.90
Quasi-money	25.81	42.65	50.37	60.01	106.47
Other items (net)	...	6.00	7.00	21.16	22.17

Source: IMF, International Financial Statistics, Vol. XXXII No. 12, December 1979.

During most of 1978 and 1979 the level of liquidity in the banking system was very high and because of difficulty in employing new funds in 1978, the commercial banks restricted their acceptance of additional fixed deposits from the public. However, measures were taken to reduce the excess liquidity including a lowering of commercial bank interest rates in August 1978.

#### 9. Wages and prices

Consumer prices rose by 12.7 per cent in 1976, 12 per cent in 1977 and a further 9.7 per cent in 1978. As very considerable food and other consumer good supplies are imported, it is not possible to isolate the Botswana economy from the inflation generated beyond its borders. In October 1979 consumer prices were 14.6 per cent higher than a year earlier indicating some intensification of inflation.

Wages and salaries were P 144.8 million in 1977/78 compared with P 89.2 million in 1974/75. In this three year period the numbers in formal sector employment rose from 51,600 to 62,700 so average nominal earnings have risen by about 33 per cent which is probably much the same as the increase in consumer prices.

#### 10. Employment and unemployment

While employment in Botswana as measured by increases in formal sector employment, has risen substantially, there has been a reduction in the numbers of citizens employed on the mines in the Republic of South Africa so the benefits of increased domestic employment have been offset to some extent in total household incomes.

There were an estimated 57,325 persons in formal sector employment in Botswana in 1975 and this figure had risen to a rough estimate of 69,200 in 1978. This increase of about 12,000 compares with a fall of 4,000 in the number of Botswana employed on South African mines. At the end of 1978 there were 20,000 Botswana working on the mines in South Africa.

The population of the country is estimated at 805,000 on a de jure basis in 1978 so the number of these in wage employment at about 90,000 is equal to 11 per cent of the total. The majority of the economically-active population is still engaged in self-employment mainly in the rural areas.

#### 11. Other social sectors

(a) Education. The growth in enrolments at all levels is continuing at a relatively rapid rate as shown by the comparison below:

Enrolment	1975	1976	1977	1978
Primary	116 293	125 588	137 290	145 459
Secondary	12 098	13 987	15 496	16 086
Vocational	1 699	1 722	1 754	2 222
Teacher training	480	562	646	669
University	465	533	622	762
Total	131 044	142 392	155 808	165 198

Thus in 1978 just over 20 per cent of the total population was at school or university and education expenditure at P 21.95 million accounted for 21.5 per cent of Government recurrent expenditure.

(b) Health. Total expenditure on health services and their development has been estimated at P 21.27 million in 1978/79. This total includes what is spent on health by the Ministry of Health, other government ministries, local authorities, missions and industry. There were other health related expenditures incurred on the mines in Botswana.



Data on health facilities and personnel only relate to 1976 but the over-all coverage is relatively good measured against general standards existing in developing Africa. As reported in earlier surveys it is the long-term aim to provide a comprehensive health service to people throughout the country although practical implementation of this policy in areas of scattered population presents particular problems.

The expansion of the National Health Institute was scheduled for completion in 1979/80 thus providing an increased output of trained nurses particularly for rural clinics and health centres. Rural health centres are being upgraded.

(c) Housing. This is still a problem area in the main urban centres but there is substantial activity designed to increase the supply of housing and to help cater for the demands of the lower-income groups. Substantial sums have been allocated in the 1979/80 development budget for urban development. A Government Guaranteed Housing Loan Scheme is being introduced to assist people to build or purchase their own homes.

## B. MAJOR PROBLEMS

These have been mentioned in past surveys. The constant threat of drought makes agricultural crop production an extremely precarious occupation and outbreak of foot and mouth disease have their own impact on the livestock industry especially when large beef sales are dependent on the EEC market. There is still a crucial shortage of trained indigenous personnel for high level administrative and professional posts and those for middle-level technical and managerial posts.

A particular problem in 1978 and 1979 was an excess liquidity in the banking system due to an unsatisfactory demand for credit facilities. The substantial build-up of net foreign assets points to the possibility of using more banking resources for development despite the fact that the present expenditure on development is already high in relation to total GDP.

## C. INTERNAL DEVELOPMENT POLICIES

The economy has grown substantially so far this decade and the diversification of production away from its previous almost complete dependence on agriculture has greatly strengthened the economic base. The move into more service-sector-based enterprises has also helped. There has been a particular expansion in the primary school enrolment and the total sums spent on health services are high but there is still a need in education to accelerate the rate of development of post-primary education in view of the present shortages of higher-level and middle-level manpower from domestic sources.

Details of the fifth development plan were being finalized as this survey was written so it is not possible to discuss them here but as reported by the Vice-President, Dr. Q.K.J. Masire, in the budget address presented on 26 February 1979 the main themes of this plan will be employment creation and rural development with a high priority being given to the development of arable agriculture. However, at the same time diversification of the economy and employment creation requires that a high priority be given to promoting industrial and commercial activity. It is the intention, while continuing to expand the physical and social infrastructure, to increase the share of government resources allocated to directly-productive activities in agriculture, commerce and industry.

In order to bridge the skilled manpower gap the Government will continue to employ expatriates but a greater share of skilled manpower is to be encouraged to enter non-government employment.

The effort to be made to create employment in arable agriculture will help absorb new entrants to the labour market especially those who have only received a basic primary education.

Expenditure on preparation for the takeover of the Botswana line of Rhodesia Railways were covered in the 1979/80 development budget as was the next phase of the foot and mouth disease vaccine factory.

#### D. PROSPECTS FOR 1979 AND 1980

The year 1979 has been one of substantial progress despite the extremely poor agricultural season of 1978/79. Cattle slaughterings and meat exports have risen markedly, diamond output and sales are at very much enhanced levels and a better market for copper-nickel matte exports have all led to exports rising by about 80 per cent. Development expenditure in the 1979/80 government budget is at the high level of P 91.8 million and the further substantial increase in recurrent expenditure should also have had a stimulatory impact on the economy. On balance the increase in GDP at constant prices could be in the region of 6 to 8 per cent on a calendar year basis.

For 1980 export earnings could again increase although by a much lower figure than in 1979. Imports seem likely to rise once again and government expenditure will increase markedly with its ripple effect on economic activity. The rains in the 1979/80 season will decide whether there will be a recovery in crop production but it is too early to make any forecast. It seems likely however, that there will be further growth in 1980 but at a much lower level than in 1979.

## BURUNDI

### A. ECONOMIC AND SOCIAL DEVELOPMENTS, 1978/1979

#### 1. Introduction

With its relatively high population density of 143 inhabitants per sq. km., Burundi has an economy almost exclusively agricultural, with virtually a single export; coffee. The fluctuations of the price of coffee have thus a key role in the economy and determine exports, government expenditures and the level of investments. In 1976/1977, the considerable rise of coffee prices enabled Burundi to accumulate large foreign assets and to increase its investment expenditures substantially. Capital formation rose from 9.4 per cent of GDP in 1975 to 11.5 per cent in 1977. In 1978, coffee prices started to fall from the high level reached in 1977, and the subsequent fall of exports led to large trade and payments deficits. Unfavourable climatic conditions were not conducive to significant growth of food production and there was some shortages in the market. The growth rate in industrial production fell sharply. Conditions on the Kigoma-Dar es Salaam railway line became difficult and a shortage of petroleum developed during the first half of the year hampering industrial production and slowing down work on investments projects. Consumer prices in Bujumbura rose by 23.4 per cent in 1978 as against 6 per cent in 1977, but the GDP deflator growth rate was lower (9.6 per cent against 13 per cent) because of the drop in export prices. Despite these problems GDP increased by 5.3 per cent at constant prices in 1978 which is indeed a remarkable achievement.

.. In 1979, a serious situation was created by the almost complete closure of the Kigoma-Dar es Salaam railway during the military operations in Uganda. Industries and construction sites were paralysed by a shortage of petroleum and cement. To remedy the situation the Government introduced rationing of petroleum, but this was dropped in August when the situation had returned to normal. International help was sought to accelerate the transport of goods accumulated at Dar es Salaam and an air operation was organized with EEC support. However, these problems were somewhat alleviated by the increase in coffee production and the rise in wholesale prices for coffee in 1979 on world markets.

Much will depend on when sales are actually made. Burundi traditionally exports its coffee in the second half of the year but the prices may have been decided earlier. In the first half of 1979 prices were somewhat less than in 1978 but in the second half they were higher. The development expenditure has been cut from 67 billion FBU to 45 billion to take account of the new situation despite an increase of 30 per cent in the cost of some ongoing projects. It seems likely that the growth of the economy in 1979 will be lower than in 1978.

#### 2. GDP by industrial activity

The main growth in the Burundi economy since 1975 has been outside agriculture so that the share of this sector in GDP has fallen although it was still contributing 62.4 per cent of the total in 1978. Industry has grown fastest probably because of more construction activity and this sector's share of GDP was 13.8 per cent in 1978 while for services it was 23.8 per cent.

In 1978, agriculture grew by about 3 per cent at constant prices, a rate probably equal to the population increase. Manufacturing production went up by 9.5 per cent while construction increased by a 20 per cent reflecting the rise in investment expenditure. In the services sector, growth was 8.9 per cent.

Burundi: Table 1. GDP by industrial origin, 1975 to 1978 (millions of Burundi francs)

1970 prices	1975	1976	1977	1978
Agriculture	14 224.5	14 770.3	14 921.8	15 336.6
Industry	2 136.7	2 447.4	3 012.5	3 411.3
Services	4 598.2	4 848.5	5 367.0	5 843.5
GDP at factor cost	20 959.4	22 066.2	23 301.3	24 591.4
Indirect taxes net	1 227.3	1 930.1	2 961.3	3 071.5
GDP at market prices	22 186.7	23 996.3	26 262.6	27 662.9
GDP at current market prices	32 671.7	39 327.1	48 139.4	55 314.3

Source: Ministere du Plan, Burundi.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. The climate in the 1977-1978 season was marked by the early cessation of the main rains and crops of beans suffered but on the whole the growth of food production was in line with the growth of population. Figures given in table 2 on production from all sectors of agriculture are from national data. They do not include figures for bananas, roots and tubers because the published information is so obviously inaccurate. Earlier figures for 1976 had suggested output of 1,299,000 tonnes of bananas and 959,000 tonnes of roots and tubers.

Burundi: Table 2. Agricultural production, 1975 to 1978

	1975	1976	1977	1978
<u>Food crops</u>				
Cereals (thousand tonnes)	658.9	573.3	631.7	662.8
Beans and peas (thousand tonnes)	485.2	539.5	599.7	540.7
Oil seeds (thousand tonnes)	23.9	21.2	20.9	25.1
<u>Commercial crops</u>				
Coffee (tonnes)	16 925	21 428	17 031	23 026
Cotton (tonnes)	3 818	3 010	5 161	6 148
Tea (tonnes)	787	1 227	1 470	1 454
Export earnings (million Burundi francs)	2 334.8	5 738.1	7 828.8	5 709.0
<u>Animal herds</u> (thousand)				
Cattle	800	795	799	819
Sheep	311	304	269	282
Goats	683	570	564	608
Pigs	46	27	29	32
Fish catch (tonnes)	15 416	20 231	19 495	...

Source: National data from Burundi.

There is a programme to increase food production through the introduction of modern techniques and the use of better inputs. Because of the nature of the terrain, and the high population density, soil erosion is already a major problem which is worsening as trees are cut for firewood, and slopes put under cultivation. A great effort is being made to introduce and increase soil conservation measures. There are other programmes, some concerning agriculture as a whole like the improved seeds programme and the fertilizer programmes. The Imbo development project is located along the Ruzizi valley and the Tanganyika lake and here irrigation is being developed. Some 70 projects and programmes are being implemented in the agricultural sector while extension officers are being trained, the objective being to have one such agent for each 250 families.

Coffee production which dropped in 1977 to levels comparable to the low point observed in 1975, increased substantially by 6,000 tonnes in 1978. But the lower price, meant lower export earnings which fell by FBu 2,445 million or 32.2 per cent. However, the price to the producer was maintained at FBu 112 per kg. Cotton production increased from 5,161 tonnes to 6,148 tonnes, thus recovering from the fall in production in 1975/76. There was a slight drop in production of tea but export revenues actually increased.

The programme of improvement of the coffee plantations is continuing. It is planned to renew 40 million out of the existing stock of 72 million trees. To date, 29 million have been replaced.

In 1979, there was too much rain in May which could have an impact on food production but the adverse effects will probably be minimised because large areas under existing food crops are for bananas, roots and tubers. For coffee, marketing data on August 7, show a 3,000 tonne increase in production over the same period in 1978. This means a substantial increase in producers' incomes and growth in export earnings.

(b) Mining. Production is small consisting of small quantities, of bastnaesite, cassiterite, ferberite and colombo-tantalite. There are prospects of developing nickel mining and above all in the exploitation of the large peat deposits. A nickel deposit has been identified at Musongati. For peat, a public agency, ONATOUR, (office nationale de la tourbe) has been established. The important peat deposits include those of the Akanyaru which contains an estimated 1 billion and a half cubic meters of peat. Use of peat will help conserve the national forests.

(c) Energy. Electricity consumption increased 12.2 per cent in 1978, a rate almost identical to the increase observed in 1977. Most electricity is imported from the dam on the Ruzizi river in Zaire. In order to develop internal resources, two dams are under construction, one on the Mugere river with a projected capacity of 6 MW and the other in Gitega on the river Ruvyironza with 1.5 MW. These were scheduled for completion in 1978, but are late.

Oil products are supplied from the Dar es Salaam refinery in Tanzania. In 1978, consumption rose by 10.8 per cent to reach a total of 38,383 m3 but this was from a particularly depressed level in 1977. At the beginning of 1979, there was a curtailment of supplies from February to May. As shown by port data, the supplies of fuel products in the first quarter of 1979 were only half those obtaining in the first quarter of 1978.

(d) Manufacturing. The industrial sector is small and a large part of it is in traditional beer production using bananas and sorghum. In 1978, growth in the sector as measured by national accounts estimates was 9.5 per cent. Some new

factories like the match factory and the Agricultural implements factory encountered problems in their initial stages of production including competition from foreign suppliers. Several projects are either being implemented or are at the study stage. These include a flour mill, a hides and skins factory, a cement factory, a textile complex (cotebu), and a cigarette factory. The completion of certain projects has suffered considerable delays and cost overruns in 1979 because of a lack of cement, shortages of fuels and sometimes inability to bring in equipment following the temporary closure of the railway from Dar es Salaam.

The country appears to offer possibilities for handicraft production but a limiting factor is a lack of entrepreneurs able to seize the opportunities which exist.

Burundi: Table 3. Energy consumption and beer production, 1975 to 1978

	1975	1976	1977	1978
Electricity consumption (thousand kWh)	26 116	27 182	30 571	34 287
Consumption of oil products (thousand m <sup>3</sup> )	35 386	37 390	34 644	38 383
Beer production (thousand hl)	398.2	480.8	525.0	525.5

Source: National data from Burundi.

(e) Construction. The emphasis on development in the economic policy of Burundi is leading to substantial and continuing growth in the construction industry although this growth is from a low starting point. A large number of projects are under development but supply shortages due to import transportation problems have had some impact on progress. There is a project to produce cement, both of the Portland variety and from pouzzolane, but there are difficulties in getting the raw material (clinker) from the Uvira cement factory, which is on the other side of Lake Tanganyika in Zaire.

(f) Transport. Most of the foreign trade of the country passes through Tanzania, using the Bujumbura-Kigoma-Dar es Salaam route. Efforts are being made to develop the Mombasa route through Rwanda, Uganda and Kenya and a public corporation, Intraco, has been established for this purpose. However the dependence of Burundi on the Tanzanian railway is still very great. In 1978, there was a significant increase in the traffic handled at the port of Bujumbura which rose from 147,375 tonnes to 166,122 tonnes or by 12.7 per cent. This represents a strong revival of activity after the fall recorded from 1974 to 1977. In the first quarter of 1979, the situation was reversed and traffic was only 66 per cent of the same period of 1978, because of almost complete stoppage of service by the railway in Tanzania due to the fighting in Uganda. Air transport has continued to grow, the number of passengers handled rising by 14 per cent and the tonnage of merchandise by 67 per cent. 1979 statistics should show an increased role of air traffic in merchandise transport because planes were used to clear some of the backlog of goods destined for Burundi at the port of Dar es Salaam.

In transport the basic problems remain a lack of capacity at Dar es Salaam port, inadequacy of the railway to Kigoma which is old and which lacks wagons and locomotives. These problems were accentuated in 1979, when the railway was used to supply Tanzanian troops in the north thus depriving Burundi of essential

supplies for a number of months. There are projects for improving the railway and the whole transport infrastructure between Bujumbura and Dar es Salaam. Presently the port of Kigoma is being modernized. On the railway new locomotives will be brought into service in October 1979 and Tanzania has asked for funds for the modernization of the railway line itself. On the lake, the Government of Burundi plans to set up a shipping company to supplement private carriers.

Although the route to Mombasa is longer than the one to Dar es Salaam (2,200 km against 1,200 km), it is a useful alternative route. In the road programme, the part of the Bujumbura-Kigali which is on Burundi's side of the border has been asphalted. Presently the length of asphalted roads is 545 km, while other classified roads have a length of 2,439 kms. The length of tarred roads is expected to increase to 930 km by 1989.

Burundi: Table 4. Transport indicators, 1975 to 1978

	1975	1976	1977	1978
<u>Port of Bujumbura</u>				
Freight in (tonnes)	103 382	100 923	125 567	132 945
Freight out (tonnes)	31 196	28 078	21 808	33 177
Total (tonnes)	134 578	129 001	147 375	166 122
<u>Airport of Bujumbura</u>				
Passengers (number)	27 521	30 198	35 194	40 184
Freight (tonnes)	1 073.6	1 241.6	1 791.5	2 990.1
<u>Roads</u>				
Motor vehicles in use (number)	...	7 320	7 877	8 687

Source: National data from Burundi.

#### 4. Expenditure and the GDP

Domestic expenditure grew by 25 per cent at current prices in 1978 while GDP increased by 14.9 per cent. The strong growth of domestic expenditure came from both consumption and investments. Private consumption which grew by 20.9 per cent was stimulated by larger incomes earned from coffee and by increases in civil servants salaries. Government consumption rose by 37.4 per cent. But the largest gain was in gross fixed capital formation which increased by almost 40 per cent and at the current share of 14 per cent of GDP is the highest ever. In 1973 the share of gross fixed capital formation in GDP had been only 5 per cent.

Burundi: Table 5. Expenditure and the GDP, 1975 to 1978 (millions of Burundi francs)

At current prices	1975	1976	1977	1978
Private consumption	29 886.5	31 446.0	36 807.6	44 498.7
Public consumption	3 828.2	5 486.9	5 664.5	7 785.0
Gross fixed capital formation	3 069.0	3 515.0	5 517.4	7 709.1
Change in stocks	-556.0	-	-	-
Domestic expenditure	36 227.7	40 447.9	47 989.5	59 992.8
Exports less imports of goods and services	-3 556.0	-1 120.8	149.9	-4 678.5
GDP at current market prices	32 671.7	39 327.1	48 139.4	55 314.3

Source: Burundi Ministry of Planning.

5. External trade and balance of payments

With the fall of coffee prices exports fell sharply in 1978 while imports increased because of higher demand coming from rising investments and consumption. Imports increased by 32.4 per cent, while the value of exports was down by 35.3 per cent. In contrast to 1977 when there was a surplus large trade deficit appeared in 1978 reaching Fbu 2.8 billion. There was no change in the composition of exports which are dominated by coffee, but for imports, there was an increase of capital goods imports of 47 per cent over 1977.

The large trade deficit brought about an equally large goods and services deficit reaching roughly Fbu 4 billion. Both transfer payments and capital inflows increased but not enough to offset the goods and services deficit. There was

Burundi: Table 6. External trade and balance of payments, 1975 to 1978 (millions of Burundi francs)

	1975	1976	1977	1978
<u>External trade</u>				
Exports	2 515	5 420	8 073	6 029
(of which coffee)	(2 213)	(4 835)	(7 585)	(5 140)
Imports	4 856	5 027	6 678	8 842
Balance	-2 341	393	1 395	-2 813
<u>Balance of payments</u>				
Goods and services (net)	-739	-597	1 901	-3 994
Private transfers (net)	234	366	484	532
Government transfers (net)	1 230	1 877	1 058	1 343
Capital	385	-146	-105	441
Reserves and related items a/	-1 110	-1 500	-3 548	1 678
Errors and omissions	-	-	-	-

Source: Banque de la Republique du Burundi: Bulletin Trimestriel, No. 68, Mars 1979

: IMF, International Financial Statistics: Vol. XXXII No. 10 October 1979.  
a/ Balancing item.



consequently a drop in reserves of FBu 1.7 billion against an increase of FBu 3.5 billion in 1977. However net foreign assets were still at the high level of FBu 6.28 billion at the end of 1978.

#### 6. Development aid and the external debt

The inflow of transfers (aid) to Burundi rose from FBu 1,542 million in 1977 to FBu 1,875 million in 1978. There was also a quadrupling of capital inflows from FBu 104 million to FBu 441 million.

Development aid data are not yet available for 1978. For 1977, figures show a total equal to FBu 2.68 billion which is a substantial sum in relation to GDP and much more important in relation to the balance of payments. Expenditure of this aid was mainly concentrated in agriculture (31 per cent), and education (32.5 per cent).

#### 7. Government expenditure and revenue

Ordinary budget revenues increased by 30 per cent in 1978 more than the increase in 1977, because tax rate increases decided on in 1977 began to take effect but particularly because of rising imports leading to higher customs duty collections.

Burundi: Table 7. Government revenue and expenditure, 1975 to 1978  
(millions of Burundi francs)

	1975	1976	1977	1978
Current revenue	3 054.0	4 624.3	5 648.0	7 360.8
Current expenditure	2 967.1	4 023.1	4 847.6	6 053.1
Surplus	86.9	601.2	800.4	1 307.7
Capital receipts <u>a/</u>	170.6	482.3	1 568.3	2 401.8
Capital expenditure <u>b/</u>	300.7	816.8	1 866.7	3 706.9
Overall balance <u>c/</u>	-43.2	266.7	502.0	2.6

Source: Banque de la Republique du Burundi: Bulletin Trimestriel, No. 68 Mars 1979.

a/ Includes small amounts outside extraordinary budget.

b/ Excludes sums allocated for public debt sinking fund.

c/ Excludes certain small loans.

Current expenditure rose by 24.9 per cent, and the current surplus increased to FBu 1,308 million compared with FBu 800 million in 1977.

For other expenditure the total rose by 98.6 per cent to FBu 3,707 million in 1978. This high rate of increase is a result of the investment drive started under the new development plan. The surplus on current account plus higher receipts for the capital budget enabled this higher level of spending to be covered.

The budget 1979 was revised in July to take into account the 15 per cent increase in the housing allowances for public servant. Compared to 1978, there is a very substantial increase of ordinary expenditures of 41.7 per cent while extraordinary expenditure is reduced by 5.2 per cent. Thus total projected expenditure is 24.3 per cent more than in 1978, a smaller increase than in 1978 but nevertheless a substantial growth rate leading to increased activity in the economy as a whole.

#### 8. Money and banking

The expansion of money supply which had been very high in the two years to 1977 because of increasing foreign assets slowed down in 1978. Money supply including quasi-money increased by 13.2 per cent in 1978 against 60.8 per cent in 1977. The increase was related to the rise in domestic credit from FBu 2,159 million at December 1977, to FBu 6,087 millions at the end of 1978, which was partly offset by a fall in net foreign assets from FBu 7,760 million to 6,283 million. There was also a marked rise in other liabilities (other items in table 8) from FBu 1,685 million to FBu 3,050 million.

In the first seven months of 1979 net foreign assets fell further to FBu 4,116 million while net claims on the Government doubled to FBu 2,522 million and other domestic credit also rose sharply from FBu 4,851 million to FBu 7,397 million. The consequent rise in the money supply including quasi-money was 11.2 per cent.

Burundi: Table 8. Monetary survey, 1975 to 1979. (millions of Burundi francs)

	End 1975	End 1976	End 1977	End 1978	July 1979
Net foreign assets	2 135	3 827	7 760	6 283	4 116
Domestic credit					
Net claims on Government	1 219	1 111	148	1 236	2 522
Claims on official entities	53	16	124	359	632
Claims on private sector	997	1 518	1 887	4 492	6 765
Money	3 274	4 957	7 838	8 823	9 643
Quasi-money	128	165	396	496	619
Other items (net)	1 001	1 350	1 685	3 050	3 773

Source: IMF, International Financial Statistics; Vol. XXXII No. 10, October 1979.

#### 9. Wages and prices

Consumer prices measured in Bujumbura increased 23.4 per cent in 1978 compared with a rise of only 6.8 per cent in 1977. The increase was mainly felt at the end of the year with prices increasing by 12.5 per cent in fourth quarter.

After the major adjustments made in public sector wages in 1977, no new measures were taken in 1978. In 1979, however, an increase in housing allowances was granted to public servants.

#### 10. Employment and unemployment

Most people in Burundi are self-employed in agriculture and do not depend on wages for their livelihood. The main problem in the rural areas is underemployment which at the level of the family is exacerbated by a higher pressure of population

on the available cultivateable area. In the modern sector of the economy there is an acute lack of qualified indigenous personnel. According to Bujumbura employment exchange statistics, job offers in 1978 were slightly greater than job requests (7,999 against 7,689). The large number of new projects being developed has undoubtedly increased the number of persons in wage employment the total being estimated at 93,133 in 1978, with 48.5 per cent working in the public sector.

#### 11. Other social sectors

(a) Education. The number of pupils and students increased in 1978, but the enrolment ratio is still very low compared to other African countries and has not progressed appreciably in the last ten years. For a population estimated at 3.9 million in 1978, the number of pupils enrolled in primary schools in 1978 was only 142,700 or only 14.3 per cent of the relevant age group. In 1968, the enrolment ratio was 21 per cent and in 1965, 19.5 per cent. The picture must however be corrected to take account of the "Yagamukana" schools run by the Catholic Church and which enrol twice the number of pupils as the government schools. These schools combine teaching of basic subjects twice a week and participation of children in farm work. This model for schooling is being studied by the Government within a framework of a plan to reform schooling and adjust it to the needs of the economy.

(b) Health. Mortality and morbidity rates are high because of environmental problems. There is a lack of clean piped water, refuse and sewage disposal systems are virtually non-existent in the rural areas. Most illness is caused by infectious diseases which could be reduced substantially using minimum hygienic methods. Despite resource limitations continued efforts are being made to improve the health situation. There are at present 143 health centres and 23 hospitals. To reduce expenditure on drugs, a drug processing centre has been established which imports medicine in bulk to package it for final use. This procedure has cut costs significantly.

#### B. MAJOR PROBLEMS

The total dependence of Burundi on coastal countries for the transport of its exports and imports, and on a single product, coffee, as the major export revenue earner, has been emphasised in 1978 and 1979. The fall in coffee prices has reduced export earnings and difficulties over use of the Kigoma-Dar es Salaam railway have caused serious shortages of fuel, cement and other products.

Agriculture has a very low productivity and is facing serious problems arising from high population densities, soil erosion, deforestation, inadequate use of modern inputs and many other factors. Government efforts to raise productivity and intensify agricultural techniques are commendable but understandably they require time to secure quick impact despite the large number of projects in this sector.

#### C. INTERNAL DEVELOPMENT POLICIES

Measures were taken to counteract the effects of supply crises both in 1978 and 1979. Rationing was introduced on both occasions and for oil products it was lifted only at the beginning of August 1979. Efforts are continuing to diversify exports and import routes by making use of Mombasa and the transport links through Kenya and Uganda. However, one solution to the transport problem lies in the improvement of the railway Kigoma-Dar es Salaam and the enlargement of the effective capacity of the port of Dar es Salaam. Burundi has been active in joining with Tanzania to seek EEC aid for this purpose.

Though coffee prices have fallen, the Government has kept the producer price at its 1977 level. This has meant that the stabilization fund which intervenes to regulate the coffee market has made payments but producers incomes have increased and production has been stimulated.

As shown earlier investments and particularly public investments have been greatly increased in recent years. The Government has managed to implement most of the development plan programme.

#### D. PROSPECTS

The transport crisis in the first half of 1979 has already been commented upon and this has had some impact on growth. Inflation has accelerated and the oil price rises will have an important impact on the total cost of imports.

However production of coffee has increased in 1979 and in the second half of the year prices had recovered to some extent from the low levels of late 1978/early 1979.

For the year as a whole while certain modern sector projects and establishments may have been hit in the first half of the year by supply shortages, the increase in agricultural output and recovery in the second half of the year could mean an overall growth rate a little lower than the 5.3 per cent recorded in 1978.

## CAPE VERDE

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978/79

#### 1. Introduction

The economy of Cape Verde has been in recession almost continuously since 1965 and since 1968 the country has suffered from drought interrupted occasionally by violent rainstorms with falls in some cases reaching 300 mm a day and causing soil erosion on a massive scale.

According to ECA estimates, the average annual growth rate of GDP was negative both in the period 1965-1977 and more recently in the period 1970-1977, recording -1.1 per cent and -1.5 per cent respectively. Agriculture and industry were estimated to have grown yearly at current prices from 1965-1977 by annual averages of 7.3 per cent and 7.7 per cent respectively but lower growth rates of 5.9 and 5.3 respectively were recorded in 1977. The economy of Cape Verde is characterized by (a) a large but declining share of services in the total GDP (63.5 per cent and 54.1 per cent in 1965 and 1977 respectively), (b) a poor infrastructure for agriculture and, (c) dependent on a massive inflow of external aid and private transfers from abroad.

An important element which continued to affect the performance of Cape Verde in 1978 was the 1977 drought which reduced agricultural output in real terms very severely especially from the rain-fed fields. As a consequence, imports of food increased substantially leading to a very large trade deficit. Similarly, unemployment, particularly in rural areas, reached high levels, thus impeding to some extent the efforts being made under the emergency programme of 1977/1978 which laid the foundations for basic structural changes in the economy.

Although the drought was less severe in 1978 than in 1977, Cape Verde is still encountering serious food shortages in 1979 and massive aid is still required.

#### 2. GDP by industrial origin

According to ECA estimates, GDP at current factor cost in 1977 amounted to 2,143.8 million escudos, of which agriculture represented 35.2 per cent, construction 4.4 per cent, other industry 2.9 per cent, commerce 39.8 per cent, transport and communications 3.1 per cent and other services 14.6 per cent. At current prices GDP at factor cost increased by 12.2 per cent between 1976 and 1977, manufacture, electricity and construction being the fastest growing sectors. However, the total share of these sectors in total GDP is relatively small and the 1977 over-all growth rate originated mainly from commerce, agriculture and services.

Although comprehensive GDP data are not available from national sources, some rough estimates show that GDP at current prices increased by about 15 per cent in 1978 with construction and transport growing by about 19 per cent and 20 per cent respectively.

Cape Verde: Table 1. GDP by industrial origin, 1977 and 1978

At current prices	1977 value	Percentage	1978 value
Agriculture	755.0	35.2	...
Mining and quarrying	6.7	0.3	...
Manufacturing	39.2	1.8	...
Electricity, gas and water	17.0	0.8	...
Construction	94.5	4.4	113.4
Commerce	852.5	39.8	...
Transport and communications	67.0	3.1	80.4
Other services	311.9	14.6	...
GDP at factor cost	2 143.8	100.0	2 486.5

Sources: ECA estimates for 1977.

Government of Cape Verde estimates for 1978.

### 3. Selected economic sectors

(a) Agriculture. In Cape Verde, the main food crops are maize and beans which are cultivated on rain-fed fields. As for irrigated fields, they cover only about 2,000 hectares and here bananas and sugar-cane are grown. Only two islands (Santiago and San Antao), which include 44 per cent of the land area and 63 per cent of the total population, have any real agricultural possibilities; the remaining islands are relatively poor and have very little rainfall.

Cape Verde: Table 2. Cultivated land area and crops grown in 1977 in hectares

#### Rain-fed fields

Maize and beans	35 000
Sweet potatoes	1 000
Coffee	280
Other crops	4 710

#### Irrigated lands

Sugar-cane	1 100
Banana	170
Cassava and sweet potatoes	230
Other crops	500

Source: A Producao Agricola Nacional - perspectivas para 1977-78, Ministerio de Desenvolvimento rural (Direccao geral de Agricultura, Silvicultura e Pecuaria - Julho 1977).

For 1977, it is reported that, because of the severe drought that year, the harvested crop from rain-watered fields was very small. While local production in 1977 was 2,000 tonnes and 240 tonnes for maize and beans respectively, the estimated demand in 1978 was 58,000 tonnes and 11,000 tonnes respectively, which means that the local production of 1977 covered only 3.4 per cent and 2.2 per cent of the respective domestic demand for maize and beans.

In 1978, the situation improved slightly since it rained in most of the islands although not regularly, but the rainy season was particularly short. Therefore, the harvested crop was far below the objective of the emergency programme of 1978. The same situation seems to have prevailed in 1979.

As for animal husbandry, the situation in 1977 was particularly difficult and it was necessary to import about 1,200 tonnes of food to feed the animals. Despite these imports losses were substantial particularly of cattle. Thus the number of cattle already small in 1976 compared to 1968 (15,000 and 41,800 respectively) dropped once again. The Government is planning to concentrate cattle near the irrigated areas in order to reduce the losses during periods of drought and to encourage goat herding because these animals are hardier and can survive more easily. By 1980, the number of cattle is expected to be restored to the level of 1968 while for goats which were estimated at 80,000 head in 1978 the number is expected to double.

Cape Verde: Table 3. Main crops, 1970, 1977 and 1978 (in tonnes)

	1970	1977 <u>a/</u>	1978 <u>a/</u>
Maize and beans	1 265	2 240	21 250
Cassava and potatoes	4 963	...	16 000
Bananas	8 371	...	5 625
Sugar-cane	8 082	...	...

Source: Government of Cape Verde, Praia, October 1977.

a/ Estimates.

There are bilateral and multilateral projects aimed at increasing the area of irrigated land. In the islands of Santiago, San Antao and San Nicolai programmes to explore underground water resources are underway and it is expected that these resources will make it possible to irrigate about 8,000 hectares in the island of Santiago.

(b) Fishing. The islands of Cape Verde have substantial potentialities for fishing. The main fishing islands are Santiago (47 per cent of the fish caught), San Vincente (14 per cent) and Fogo ((11 per cent).

However, there are still many limitations to the growth of this sector principally (a) the traditional methods still used by most of the fishermen and, (b) the relatively low level of domestic demand due to high prices. Hence fish are not consumed by that 70 per cent of the population living away from the coastal areas. The annual potential has been estimated at 50,000 tonnes of fish, 56,000 tonnes of tunny-fish and 1,800 tonnes of lobster, but the actual average annual catch is only about 9,000 tonnes for all varieties. It should be noted that most of the modern fishing enterprises which were Portuguese-owned left and took their equipment in 1976 after independence.

Cape Verde: Table 4. Fish catch, 1976 to 1978 (in tonnes)

	1976	1977	January to June 1978
Using traditional methods	...	8 331	...
Using modern methods	3 902	848	571

Source: Cabo Verde, Boletim Trimestral de Estatística 1977, 2<sup>ème</sup> trimestre 1978.

Since fish constitutes half of the exports of Cape Verde the Government, through the national company for marketing and technical assistance is encouraging the production of fish both by traditional and modern methods. Processing facilities are projected to encourage this development. As an example, the only cold-storage industry (Fri-cap) located in the island of San Vincente will have its capacity increased from 3,000 tonnes to 9,000 tonnes in 1979.

(c) Mining. Salt and pozzolane are the only commercial mineral products of Cape Verde. Salt is mainly produced in the islands of Sal and Maio and constitutes about 18 per cent of total exports. Salt production increased substantially in 1977 and for 1978 it probably rose to 50,000 tonnes which represents a further increase of about 60 per cent. The Government is planning for a production level of 300,000 tonnes in the early 1980s taking into account the potential demand in the ECOWAS region and particularly in Nigeria.

As for pozzolane, its production, mainly in the island of San Antao, has decreased slightly since independence but the Government is planning to increase output because of its use as a building material. This mineral may be needed for the implementation of large dam projects in the Sahelian countries particularly in Senegal, the Gambia and Mali.



Cape Verde: Table 5. Mineral production, 1975 to 1978 (in tonnes)

	Salt	Pozzolane
1975	20 941	1 184
1976	13 701	789
1977	31 317	940
1978	50 000	...

Source: As table 4.

(d) Manufacturing. The manufacturing sector in Cape Verde is, very weak since its contribution to total GDP was only 1.8 per cent in 1977. It is composed mainly of a cold-store for tunny-fish, bakeries and the production of alcoholic spirit from sugar-cane. It should be noted that, because of the high level of demand of alcoholic spirit, much of the new irrigated land is being used for the cultivation of sugar-cane rather than other crops. The Government is vigorously trying to reverse this trend but the tendency still remains.

Cape Verde: Table 6. Production of selected manufactures, 1975 to 1978

	1975	1976	1977	1978 <u>a/</u>
Tunny fish <u>b/</u> (tonnes)	232.0	191.0	183.0	160.0
Biscuits (tonnes)	151.0	120.0	239.0	249.0
Spirits (thousand litres)	142.9	48.5	150.3	171.5

2<sup>ème</sup> Source: Cabo Verde, Boletim trimestral de estatística, 1975, 1976, 1977 and trimestre 1978.

a/ Part estimated.

b/ Held in cold storage.

(e) Energy. All energy needs of Cape Verde are covered by oil imports either directly or through electricity generated from oil.

As for electricity, production fell in 1976 after the departure of the Portuguese but it has since been increasing as the main present use of electricity is for household consumption.

Cape Verde: Table 7. Imports of oil and production of electricity, 1975 to 1978

	1975	1976	1977	1978 <sup>a/</sup>
Imports of oil (tonnes)	23 403	22 837	25 749	17 358
Production of electricity (thousand kWh)	1 073	7 506	8 146	8 917

Source: Cabo Verde: Boletim Trimestral de Estatística, 1975, 1976, 1977 and 2<sup>ème</sup> trimestre 1978.

a/ Estimates.

(f) Construction. The construction sector, which includes public works for water storage to help guard against future drought effects is growing rapidly. These drought control works which also include the building of irrigation pipes, galleries and wells are mainly financed from the emergency programme. The Government of Cape Verde is using food aid to finance most of its construction projects by utilizing the proceeds of the sale of cereals and other food in this way. These products were worth 84 millions of escudos in 1976, 294 millions of escudos in 1977 and 394 millions of escudos in 1978 and in 1978 they financed about one third of total public capital expenditure.

Because of the crucial shortage in housing, the Government is engaged in the construction of these and other new buildings. Imports of cement which amounted to only 13,074 tonnes in 1975 rose substantially to reach 20,295 tonnes in 1976 and 22,935 tonnes in 1977. In the first half-year of 1978, imports of cement were about 25 per cent higher than for the corresponding period in 1977.

(g) Transport. Cape Verde is developing rapidly its transport infrastructure which because of its position as a group of islands must emphasize air and sea transportation.

After a sharp decline in port activity in 1975 and 1976, both the goods loaded and unloaded increased substantially particularly in 1978 because of the improvement of the infrastructure of the port of Porto Grande in the island of San Vincente. As for air traffic, it has increased continuously since 1975, both the local and international services.

Cape Verde: Table 8. Transport indicators, 1975 to 1978

	1975	1976	1977	Jan. to June 1978
<u>Ports</u>				
Goods loaded (thousand tonnes)	20.0	17.8	27.5	66.4
Goods unloaded " "	145.5	162.0	200.0	159.4
<u>Airports</u> - internal flights				
Passengers handled (thousand)	17.4	17.4	25.1	34.0

2<sup>ème</sup> Source: Cabo Verde Boletim Trimestral de Estatística: 1975, 1976, 1977 and 2<sup>ème</sup> trimestre 1978.

#### 4. Expenditure and GDP

ECA estimates of domestic expenditure in 1977 show that total expenditure is much more than GDP and depends heavily on external aid and private transfers from abroad. With income from other family members abroad being received by households in the islands their total consumption expenditure plus that of the Government is much higher than the total GDP. Investment expenditure as well as the net deficit in revenue are paid for out of the foreign resource inflow.

Total consumption for 1965 to 1977 was 27 per cent more than GDP with private consumption alone equal to 96 per cent of the GDP generated in the islands. The marginal propensity to import is very high (more than 65 per cent according to regression analysis and based on the difficult years 1965 to 1977). For investment, because of the emergency programme financed from foreign aid, the total increased by 51.8 per cent in 1977 at current prices and further by 150 per cent in 1978.

Cape Verde: Table 9. Expenditure and GDP, 1975 to 1977 (millions of escudos)

	1975		1976		1977	
	Value	Per cent of GDP	Value	Per cent of GDP	Value	Per cent of GDP
<u>At current prices</u>						
Private consumption	1 500.0	92.7	2 000.0	98.5	2 209.0	96.8
Public consumption	528.0	32.6	630.0	31.0	677.3	29.7
Gross fixed capital formation	216.6	13.4	249.7	12.3	379.1	16.6
Increase in stocks	43.4	2.7	50.3	2.5	58.9	2.6
Domestic expenditure	2 288.0	141.4	2 930.0	144.3	3 324.3	145.7
Exports less imports of goods and services	-670.0	-41.4	-900.0	-44.3	-1 042.8	-45.7
GDP at market prices	1 618	100.0	2 030.0	100.0	2 281.5	100.0

Source: ECA estimates.

#### 5. External trade and balance of payments

External trade is characterized by a very large trade deficit due to the very high level of imports particularly imports of food and to the low share of exports in total GDP. Imports of food represented 43.8 per cent of total merchandise in 1975, 27.8 per cent in 1976, 34.4 per cent in 1977 and, because of the 1977 drought, 51.4 per cent in 1978. They totalled 110,500 tonnes in 1978 valued at 980.7 million escudos.

As for exports these decreased by 11.6 per cent from 1977 to 1978 after recording a rise of 55.2 per cent in 1977. The fall in 1978 was mainly due to a poor performance of agricultural export crops.

The country's external trade deficit widened substantially in 1977 and 1978, but because of the receipt of the large remittances from workers abroad and foreign aid the Cape Verde had an over-all positive balance of payments in 1977. In 1978, some reduction in the net transfers from abroad led to a small deficit in the balance of payments.

Cape Verde: Table 10. External trade and balance of payments, 1975 to 1978  
(millions of escudos)

	1975	1976	1977	1978
<u>External trade</u>				
Exports	61.3	48.0	74.5	65.9
Imports	1 010.8	911.4	1 284.8	1 908.3
Trade deficit	949.5	863.4	1 210.3	1 842.4
<u>Balance of payments</u>				
Goods and services (net)	-628.0	-1 106.0	-1 306.0	-2 000.0 <u>a/</u>
Net transfers (public and private)	531.0	950.0	1 444.0	1 647.0
Capital	217.0	562.0	340.0	266.0 <u>b/</u>
Reserves and related items	-120.0	-406.0	-478.0	87.0

Source: Cape Verde: Boletim Trimestral de Estatística; 1975, 1976, 1977, 1978. Banco do Cabo Verde.

a/ Rough estimates only.

b/ Balancing item.

## 6. Government revenue and expenditure

Domestic production declined substantially in 1977 and consequently, government current revenue from domestic sources decreased in 1978. While domestic revenue collected in 1977 was 536 million escudos, it fell to 500 million escudos in 1978 which corresponds to a drop of about 6.7 per cent. The budget for 1979 projects domestic revenue at 532 million escudos which is still below the level of 1977.

The foreign aid inflow is substantial and the budgets for 1977 and 1978 had projected totals of 645 million escudos and 1,160 million escudos respectively. The actual figure for 1978 may have been less than 1,160 million escudos judging from the balance of payments data given in table 10 but it was nevertheless substantial.

Although no statistics have been published in 1978 and 1979 about the breakdown of total expenditure and its financing, it is reasonable to assume that given the planned level of total expenditure in 1978 (1,666 million escudos) and 1979 (2,530 million escudos), foreign aid was used to finance the current budget deficit and for capital expenditure. The foreign aid required in 1979 was estimated at 1,998 million escudos.

## 7. Wages and prices

In 1977, monthly average wages varied from 1,040.6 escudos for a labourer to 5,883.3 escudos for a mechanical engineering technician. However, these wages vary widely depending on the islands, the highest wages being in Praia, the capital, and at San Vincente where the international port of Porto Grande is located.

Statistics on retail prices indicate that in the city of Praia there has been a rise in prices of 55 per cent between the second quarters of 1977 and 1978, the main reason being the sharp increase in the prices of food items.

## 8. Employment and unemployment

Unemployment is very high in Cape Verde particularly in those islands which lack natural resources. This phenomenon has been the major reason for the emigration which has occurred to the United States, Portugal, other European countries and Senegal. Since a large proportion of the active population is working in agriculture, the frequent droughts lead to massive enforced unemployment in this sector. The Government, through its emergency programmes in 1977 and 1978, created 15,890 and 16,800 jobs respectively, and this has improved substantially the general employment situation in the islands. Apart from drought relief works the Government is also engaged in a project aimed at creating in the island of San Vincente a ship repair base. A population census in 1979 was designed to throw more light on those activities engaging the active population.

## 9. Other social sectors

(a) Education. No information on education has been published in Cape Verde since independence in 1975. The enrolment rate in primary education is now thought to be better than that of 55 per cent for 1974/75.

(b) Health. Although Cape Verde is receiving massive assistance from a large number of countries and international organizations, infant mortality is still very high. In the second quarter of 1978, it was reported that 44 per cent of the deaths concerned children under 4 years. The main causes were pneumonia and malnutrition.

## B. MAJOR PROBLEMS

As for many other drought-prone areas, one major problem of Cape Verde remains its dependence on weather fluctuations which make it difficult for the country to achieve the objective of food self-sufficiency. The Government of Cape Verde is aware of this difficulty and has launched both short-term and long-term programmes to overcome it including the massive drought-relief projects mentioned earlier.

Another major problem of Cape Verde is its inability to take advantage of all the potentialities that exist, arising from its geographic position, in the fishing and transport sectors. Its economy remains heavily dependant on foreign aid and workers' remittances. Here again, the Government is engaged in major structural changes aimed at diversifying the economy.

Finally, Cape Verde suffers also from the lack of qualified people to manage the economy and to implement all the projects of the emergency programmes. In the past skilled workers have emigrated to work abroad. However, more recently it has been shown that some of these skilled people are returning to the country in connexion with the large numbers of bilateral or multilateral projects currently being developed.

### C. INTERNAL DEVELOPMENT POLICIES

Since independence in 1975, the Government of Cape Verde has concentrated its efforts on increasing water supplies especially the tapping of underground water and in launching programmes to preserve rain-water and to stop soil erosion. In this respect, the emergency programmes of 1976, 1977 and 1978 included many drought-control works in the islands of Fogo, Santiago and San Antao.

For the longer term, the Government is planning to increase the irrigated area from 2,000 hectares in 1978 to 10,000 hectares in the year 2000. Also, in order to diversify the country's activities, it is intended in the next development plan under discussion, (a) to use more of the fishing potential of the islands; (b) to improve the ability of the country to service the very heavy shipping traffic of the Atlantic Ocean between the African and the American coasts.

### D. PROSPECTS FOR 1979 AND 1980

Although the prospects based on historical trends would indicate that Cape Verde might continue to grow at a very slow rate of only 2.2 per cent a year even with foreign resources financing 44 per cent of GDP, the on-going structural transformations will probably reverse this tendency and lead to an average annual growth of 4 to 4.5 per cent in the 1980s with agriculture performing much better than in the past. For 1979 and 1980 the high level of expenditure on construction projects of all kinds could lead to relatively high rates of growth.

## CENTRAL AFRICAN REPUBLIC

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978/79

#### 1. Introduction

GDP declined slightly in 1978 following a fall of cotton production, the very small growth of food production and stagnation in manufacturing output. The construction sector which had shown strong growth in 1977 because of important public works, experienced a net fall in value added, and in general the investment level in the economy was very low. According to estimates made by the Ministry of Planning, DPI a/ fell by 0.2 per cent compared to the increase of 8.1 per cent obtained in 1977.

The unfavourable results observed in the production section in 1978, were associated with adverse developments in the international price of coffee which fell sharply from its exceptionally high level of 1976-1977. Combined with the lower production of cotton, as well as lower diamond production and continuing difficulties on the market for tropical timbers, exports fell and the balance of payments deficit worsened considerably. There were problems in financing the budget and the Government had to call for taxes in advance to cover current expenditures. Inflation remained high, and the consumer index for Bangui rose by more than 11 per cent.

Prospects for 1979 are not bright. The past deterioration of a large part of the road system is still weighing heavily on key sectors of the economy like export agriculture and timber felling. The budget deficit makes it difficult to supply funds necessary for farmers inputs such as pesticides and fertilizers, while producers' prices remain too low, chiefly in the case of cotton, to stimulate output. Foreign investment is at a very low level in absolute terms, far from what is necessary to achieve a reasonable growth rate. In these conditions, a further decline of GDP is probable in 1979. Later on a recovery of the economy could occur in 1980, but the result will be far from the objectives set in the current 1976-1980 development plan period.

#### 2. GDP by industrial origin

Complete national accounts have not been published since 1977, and available figures are estimates based on sectoral indicators. They however show an overall growth of the economy of 12 per cent since 1975 but little change in its structure. Compared to 1975 for example, GDP structure in 1978 shows 40.2 per cent from agriculture (42.4 per cent in 1975), 2.7 per cent from mining (3.2 per cent in 1975), 11.0 per cent from manufacturing (10.1 per cent in 1975), 5.7 per cent in construction (4.3 per cent in 1975), and 27.3 per cent from commerce (25.9 per cent in 1975). There had been thus a slight increase in the shares of manufacturing and commerce at the expense of agriculture but the magnitude of these changes is small.

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a/ DPI (Domestic Product of Industries) is equal to GDP less administration, households and import taxes.

Central African Republic: Table 1. DPI<sup>a/</sup> by industrial origin, 1975 to 1978  
(billions of CFA francs)

	1975	1976	1977	1978
<u>At 1967 prices</u>				
Agriculture, forestry, fishing	18.5	19.1	19.8	19.7
Mining	1.4	1.2	1.2	1.2
Manufacturing	4.4	4.5	5.2	5.4
Electricity and water	0.7	0.7	0.8	0.8
Construction	2.1	2.4	3.1	2.8
Commerce	11.3	12.3	13.4	13.4
Transport and communication	1.2	1.2	1.3	1.3
Other services	4.0	4.1	4.3	4.4
Total	43.6	45.5	49.1	49.0

Source: CAR: Ministry of Planning.

a/ DPI (Domestic Product of Industries) is equal to GDP less administration, households and import taxes.

For 1978 compared to 1977 the data show stagnation or decline in agriculture and construction with the greatest decline in construction where value added is estimated to have fallen by 10 per cent in real terms. As an exception manufacturing production increased by a modest 3.8 per cent, and there is a virtually no growth of electricity consumption. Commerce and transport show no growth in 1978 while there is a small rise in other services.

### 3. Selected economic sectors

(a) Agriculture and livestock. The main food crops are cassava, maize, sorghum, and groundnuts. Generally speaking conditions are favourable for agriculture, with good soils and abundant water supplies. But techniques are still inefficient and yields are consequently very low, though this is not true for cassava for which high yields can be obtained. With little technical progress the main determinants of production are the weather and available manpower. During the 1977-1978 season climatic conditions were not particularly favourable and there was a poor overall distribution of rainfall. Figures from the Ministry of Agriculture show declines in the production of cereals and groundnuts, but cassava production was not affected. This is in fact a common pattern, farmers drawing more on cassava during bad crop years because the roots can stay several years in the ground without being harvested. Judging from the evolution of the cultivated area, overall food crop production may have fallen by around 1 per cent.



For cotton, the most important cash crop, results have been poor, since production fell to 28,120 tonnes against 41,041 tonnes in 1976-1977. This large fall (31 per cent) was the result of many factors among them the bad weather which prevailed in 1977/78. But other causes have to be taken into account, among them the bad state of the roads, lack of funds to provide fertilizers and pesticides and delays in the marketing of the crop and the low producer price. During 1977/78 the price for cotton was CFA francs 50 per kg., unchanged from previous year, or only twice the price paid in 1970 since when prices paid by the farmers for manufactured goods have at least tripled. If one takes into account that cotton is the crop which requires the greatest amount of work from the peasant, it seems clear that the crop is becoming more unprofitable for the grower. In the event, data show a continuous decline per hectare. Production has declined since 1970 when it reached its highest level ever of 54,000 tonnes.

Coffee production was about the same level of 1976/77, 14,765 tonnes in 1977/78 against 14,506 tonnes in 1976/77. With higher prices in 1976 and 1977, new plantations have been started and production should increase in the future.

Tobacco production which had been growing regularly, fell to 1,972 tonnes in 1978 against 2,753 tonnes in 1978 because of the closure of a technical assistance project which had been helping tobacco farmers.

Current data on agriculture production for the season 1978-1979 show a slight increase in cultivated areas of around 1 per cent, as well as a general improvement in production figures except for cassava. Food production has increased in response to the better weather observed during the growing season. For cash crops, cotton production has recovered to some extent while coffee production has increased slightly. But the over-all improvement in agricultural production has remained fairly limited.

Animal husbandry does not play a large role in agriculture. Farmers keep mainly goats and poultry, cattle being tended by nomads, most of whom have migrated from Cameroon and Chad. Available figures, give a total of 1,124,000 head of cattle in 1977, 75,000 head of sheep, 800,000 goats, 265,000 pigs, and 1,400 000 poultry.

Central African Republic: Table 2. Agricultural production 1975/76 to 1978/79  
(in thousand tonnes)

	1975/76	1976/77	1977/78	1978/79
<u>Food crop</u>				
Cereals	105.13	91.87	90.37	103.83
Cassava	...	277.47	286.07	271.93
Groundnuts	132.43	115.33	88.24	101.02
Sesame	9.50	9.56	10.84	8.18
<u>Commercial crops</u>				
Cotton	33.13	41.04	28.12	32.11
Coffee	14.16	14.51	14.77	15.18
Tobacco	1.87	2.44	1.75	1.97
Logs (thousand m <sup>3</sup> )	321.4	441.7	505.8	591.0

Source: Central African Republic: Ministry of Agriculture.

(b) Forestry. Forest resources are considerable. There are a total of 3,415,000 ha of forests of which 2,715,000 ha are exploitable. According to the latest information, the exploited area in 1978 was higher than in 1977 because of some recovery in the international demand for timber.

In 1978, the total volume of timber felled increased by 16.8 per cent, but remained under the production obtained in 1974 (591,000 m<sup>3</sup> against 670,687 m<sup>3</sup>). Despite the increase in the volume of felled timber, exports of wood as logs or sawnwood fell slightly in 1978. Transport difficulties have played a significant role in limiting the growth of exports. In 1979, prospects are good because the production capacity of the wood industry will be significantly increased as a new industrial complex will enter into production while a sawmill complex is being modernized.

(c) Mining. Production is still limited to diamonds, but other important minerals have been found, most notably uranium. In 1978, diamond production fell from 296,000 carats to 234,200 carats, but prices increased so that export revenue increased. The fall of production may be due to the high level of tax imposed by the Government.

The uranium deposit at Bakouma has been known since 1965 and studies are still continuing on the profitability of exploitation. A society "Uranium Central African" has been created and present studies indicate that a production of 80 tonnes per year could be feasible.

Research is continuing on other minerals in the country most notably iron ore, copper ore, oil and limestone.

(d) Energy. The main sources of primary energy are hydro-electric power, imported oil, and firewood. Wood is used as a fuel source by more than 90 per cent of the people. In 1978, electricity consumption increased by 5.3 per cent compared with a rise of 9.2 per cent in 1977. During the year the national electric company acquired new generators as replacements but the capacity did not change and remained at 31 MW. A major problem facing the electricity authority is the non-payment of bills by consumers of electricity. By the end of 1978, the electric company was owed a total of CFA francs 2.5 billion which should have been used for maintenance and new acquisitions. Total consumption of oil products increased sharply by 11.6 per cent in 1978 against the modest 2.5 per cent observed in 1977.

(e) Manufacturing. Value added increased by 4 per cent in 1978 measured at 1967 prices. This modest result is due to the smaller amount of cotton being processed in the year, the growth in non-cotton-processing industries being estimated at around 7 per cent. The sector remains small and is dominated by wood processing industries, cotton processing, and the food and drink industry. As already indicated, sawn wood production declined slightly in 1978. In contract beer production grew by 19 per cent, even after the rise of 40 per cent recorded in 1977 which was exceptional because of the coronation festivities. In the textile industry, the lower production of cotton and the antiquated nature of some of the equipment has hampered production. Output which reached 4,496,000 metres in 1977 was only 2,107,000 metres for the first seven months of 1978. Production of cigarettes has stagnated, but production of cigars in the new factory which started production in 1977, has increased to 21,104,000 cigars in 1978 against 9,413 000 in 1977.

The most important investments carried out during the year have been in the wood processing industry with the completion of a new production unit and the modernization of others.

For the year 1978 investments are estimated at 2.5 billion CFA francs with 55 per cent in the wood-related sector. For 1979 a number of projects are due to be started or are under study. The most important are for a hides and skins factory costing CFAF 600 million, a cement factory with a capacity of 60,000 tonnes at a cost between CFAF 2.5 billion and 3 billion, a cassava flour unit with a capacity of 12,000 tonnes costing CFAF 1.6 billion and a soft drinks factory for 70,000 hl. at a cost of CFAF 300 billion. The financing of the soft drinks factory is already assured but for most of the other projects it was still being sought as this survey was prepared.

Central African Republic: Table 3. Indicators of industrial activity 1975 to 1978

	1975	1976	1977	1978
Diamonds (thousand carats)	338.8	286.0	296.9	284.2
Electricity consumed (thousand kWh)	44 997	45 014	49 154	51 772
Oil products consumed (m <sup>3</sup> )	62 424	49 923	51 665	57 112
Sawn wood (m <sup>3</sup> )	72 440	76 163	90 273	89 450
Plywood (m <sup>3</sup> )	...	1 442	3 875	5 387
Beer (thousand hl)	...	144.1	202.2	241.3

Source: Central African Republic : Ministry of Planning. Central African Republic: Monthly Bulletin of Statistics.

(f) Construction. Output declined by 8 per cent in 1978 compared to 1977. This was due to the end of the prefabricated houses programme and to a lower level of industrial investments, but despite this fall, activity in road construction and other public works was high and the amount invested on these sectors rose by 29 per cent.

(g) Transport. Traffic is growing with Cameroon but part of this growth is because of the increasing difficulties experienced in carrying out goods through Congo, the traditional transport route for the Central African Republic. At the same time traffic has declined somewhat with Chad because of the security situation in that country.

The Ministry of Planning indicates a high growth of total road traffic since 1975, the tonnage reaching 136,000 tonnes in 1978 against 103,000 tonnes in 1975, which is equivalent to a growth of 9.3 per cent per year. In 1978 itself little growth is shown. This latter fact is probably due to the poor state of the roads, the high cost of transport, and the slowdown of the economy. The work on the maintenance of roads and the construction of new ones has however, taken a turn for the better. Several roads are being asphalted with the projects due to be completed in the near future. In April 1977, bilateral aid donors and the EEC decided to assist with a road maintenance programme which is now being implemented.

Traffic on the River Bangui which is the main supply route, declined in 1978, by 22 per cent. This is a continuation of a trend observed in recent years. The quantity carried out in 1978 is only 63.5 per cent of what was handled in 1973, while the traffic of the national water transport agency has declined by 40 per cent, with a traffic loss of almost 100,000 tonnes.

Air traffic has evolved favourably, the number of passengers handled increasing by 34.4 per cent in 1970 and the quantity of goods transported by 200 per cent.

#### 4. Expenditure and the GDP

The latest available estimates on expenditure date back to 1970. Very rough estimates for 1978 compared to 1970 show a somewhat higher requirements for external resources of 8.6 per cent in 1979 compared to 6.0 per cent, an increase of the share of private consumption from 69.6 per cent of GDP in 1970 to 81.4 per cent in 1978, while public consumption though increasing considerably in absolute terms takes a reduced proportion of GDP falling from 19.1 per cent in 1970 to 16.0 per cent in 1979. The largest fall is in the proportion of GDP going on investment to 11.3 per cent in 1978 from 18.2 per cent in 1970. This is unfortunate since it leads to constraining growth of productive capacity. In 1970, the total amount invested under the 1976-1980 plan, fell from CFAF 11,600 million to CFAF 10,134 million.

Domestic savings amounted in 1978 to only 2.6 per cent of GDP, but this extremely small proportion of GDP by African standards was able to finance 23.3 per cent of investment. In 1970, the proportion of domestic savings had been 11.3 per cent of GDP, contributing 62.2 per cent of capital formation.

#### 5. External trade and the balance of payments

The estimation of total trade flows is difficult because official customs statistics are thought to greatly understate these flows. However, in 1978 exports have dropped because of lower prices for coffee and lower cotton production, and imports fell as economic activity returned to a more normal level after the special requirements in 1977. Thus according to customs data the trade surplus fell from CFAF 4.5 billion in 1977 to CFAF 3.4 billion in 1978. The balance of payments shows a continuing high level of deficit on goods and services account, the totals being minus CFAF 12.14 billion in 1977 and minus CFAF 10.67 billion in 1978.

There is a substantial inflow of net transfers (aid receipts) for the Government and this inflow covered most of the deficit for goods and services in both 1977 and 1978. The smaller capital inflow more than covered the remaining deficit in 1977 but in 1978 there was a small decrease in international reserves of CFAF 1 billion sufficient to mean that net foreign assets fell to minus CFAF 2.47 billion.

#### 6. Development aid and the external debt

The total transfers and long-term capital flows in the balance of payments give an estimate of the total foreign resources received by the country. Data show that after falling in 1977, there was an increased inflow in 1978. The net totals were CFAF 13.69 billion in 1976, CFAF 11.10 billion in 1977 and CFAF 12.21 billion in 1978. As shown in table 4 below most funds received are as net transfers to the Government which means grants play a much higher part in the aid inflow than capital.

With such a high proportion of grants in the aid inflow and much of the balance in the form of soft loans, servicing the external debt is not a problem in the Central African Republic.

Central African Republic: Table 4. External trade and balance of payments 1975 to 1978  
(billion of CFA francs)

	1975	1976	1977	1978
<u>External trade</u>				
Exports	10.11	14.00	20.03	16.18
Imports	14.61	13.16	15.54	12.77
Balance	-4.50	+0.84	+4.49	+3.41
<u>Balance of payments</u>				
Goods and services (net)	-16.25	-8.67	-12.14	-10.67
Private transfers (net)	-0.36	0.29	-1.13	-0.41
Government transfers (net)	8.64	9.70	8.67	8.71
Capital	7.31	2.00	3.73	2.39
Reserves and related items	-0.15	-3.68	-1.38	1.00
Errors and omissions	0.81	0.29	2.30	-1.02

Source: IMF, International Financial Statistics, Vol. XXXII, No. 10, October 1979.

## 7. Government revenue and expenditure

The Central African Republic has been experiencing difficulties in financing its budget for some time now. In 1978, a budget was introduced which projected a deficit of CFAF 5 billion. Receipts were estimated at CFAF 21.7 billion against 22.8 billion in 1977 or 4.8 per cent loss, while expenditure was raised from CFAF 22.8 billion in 1977 to 26.7 billion.

Most of the increase in 1978 was in the capital budget with expenditure rising to CFAF 7 billion against only 4.3 billion in 1977. Current expenditure rose by only 7 per cent from CFAF 18.4 billion to CFAF 19.7 billion.

According to the 1979 estimates, the level of the budget will increase by only 1.9 per cent since total expenditure will grow to CFAF 27.2 billion. While ordinary expenditure was to grow by 12.2 per cent, capital expenditure was to be reduced to CFAF 5.1 billion, reversing the trend set in 1978. The budget has been presented in equilibrium, receipts being equal to expenditure, but a loan of CFAF 5 billion has been shown in receipts.

The monetary aggregates in the next section show that net claims on the Government by the banking system have risen in each year 1975 to 1978 with the increases of CFAF 1.05 billion in 1977 and CFAF 1.21 billion in 1978 suggesting that the extent of deficit financing has not been particularly marked. There was little increase in these claims between December 1978 and May 1979.

## 8. Money and banking

The fall in net foreign assets in both 1977 and 1978 was accompanied by increases in both net claims on the Government and domestic credit to the private sector. The most significant increase was in claims on the private sector of 23.8 per cent from CFAF 14.73 billion at December 1977 to CFAF 18.24 at December 1978.

Money supply including quasi-money rose by 5.9 per cent in 1977 and a further 9.3 per cent in 1978, rates of increase which were very moderate compared with many other African countries.

In the first five months of 1979 money supply rose much more rapidly with a growth of 11.4 per cent which if continued would greatly accentuate inflationary pressures in the country.

Central African Republic: Table 5. Monetary survey, 1975 to 1979 (billion of CFA francs)

	End 1975	End 1976	End 1977	End 1978	May 1979
Net foreign assets	-4.81	0.92	-1.14	-2.47	-2.11
Domestic credit					
Net claims on Government	9.03	9.72	10.77	11.98	12.09
Claims on private sector	13.47	12.86	14.73	18.24	18.62
Money	12.27	17.07	18.20	20.52	23.48
Quasi-money	1.41	2.27	2.29	1.99	1.60
Other items (net)	4.01	4.15	3.87	5.20	3.50

Source: IMF, International Financial Statistics: Vol. XXXII, No. 10, October 1979.

## 9. Wages and prices

According to the consumer prices index in Bangui, prices rose in 1978 by 11.8 per cent compared with 9.5 per cent in 1977. In 1979 the rate of inflation seems to be increasing as the index rose by 11.2 per cent between December 1978 and May 1979. Wholesale prices have also increased rising by 11.9 per cent in 1978 against 10.6 per cent in 1977. A similar trend to consumer prices is apparent in wholesale prices in 1979.

## 10. Employment and unemployment

Persons in wage employment form only a small proportion of the total active population; around 6 per cent according to the Ministry of Planning. These employees are in three main groups: public employees forming 35 per cent of the total number, private sector employees, 54 per cent and domestic servants, 11 per cent. There are no global figures for 1978, but indicators are that the number of employees in the private sector is not growing as fast as population. But on the other hand, the number of Government employees is increasing rapidly. Between June and October 1978 the number of Government employees increased by 5.1 per cent, after a 10.2 per cent increase between June 1977 and June 1978. The total wage employment was about 31,000 in 1976 and may have been higher at about 33,000 in 1978.

Unemployment data are available only for the capital Bangui. According to the labour exchange data, there has been no discernible increase in the number of unemployed people. In fact the situation appears to have improved if compared to 1976 because of a large increase in job offers.

#### 11. Other social sectors

(a) Education. In 1978 the total enrolment excluding higher education, reached 267,633 a rise of 3.4 per cent over 1977. The number of pupils in primary schools at 242,000 was 43 per cent of the children in the appropriate age group. Despite the growth of the school population (6 per cent an average since 1976), pupils in general secondary education were equal to only 9.8 per cent of the total in primary schools. There were 1,400 students at university. In 1978, the proportion of pupils passing from primary to secondary schools was 27.5 per cent of those sitting the examination for selection.

Several education reforms were started in 1978, including the transformation of primary schools so that those who cannot continue their studies beyond the primary stage can be made ready for work in their own environment.

(b) Health. There are no recent statistics on the number of doctors, paramedical personnel and the availability of beds. The health situation is characterized by the prevalence of infectious and other epidemic diseases due to the unsanitary environment and above all the fact that access to clean water is very limited. A large part of health services activity is in the prevention of disease through the systematic checking of the population. From August to December 1977 for example, 1,450,883 persons or roughly two-thirds of the population had been examined. Among these, 178 229 were vaccinated.

#### B. MAJOR PROBLEMS

The Central African Republic is one of the countries classed as least-developed and its growth rate although satisfactorily in 1977 is generally only very moderate in relation to what is required. As land-locked country of large area the transport system and links with coastal states are crucial but here there was a very unsatisfactory situation up to 1977 and probably extending into 1978 when movement of goods was hampered by the poor state of the roads within the country and disruptions in the link through the Congo.

Cotton is a crop grown commercially by many peasant farmers. The conditions for growth, marketing etc., are such that there has been a general decline in output since 1970 which needs to be tackled by a more vigorous policy of adequate incentives.

There is still a shortage of indigenous trained and experienced personnel to fill many professional and middle-level posts and while education enrolments have been increasing there is still much to be done at secondary and higher levels.

### C. INTERNAL DEVELOPMENT POLICIES

Steps were taken in 1977 to set up an organization to deal with the problems of repairing the road system; in the current development plan a number of important road projects were also embarked upon but the poor rate of growth in the economy is still influenced by transport problems.

The current plan was intended to accelerate growth but its rate of implementation has been disappointing. Steps were taken in 1978 to speed up public sector investment by raising the capital budget quite substantially but it still looks as if the outcome of the plan to 1980 will be below what was projected. In 1979 steps were taken to improve the management of the public corporations and a decision has been taken to turn them over to private ownership.

### D. PROSPECTS FOR 1979 AND 1980

The current plan projects an increase of GDP in 1979 compared to 1978 amounting to 15.1 per cent at constant prices. In fact effective growth will be much lower. This is because of the slow growth of food production while the improvement in cotton production will not be as much as hoped for. The rate of investment in the economy as a whole is still too low to reach the projected growth rates. However, the increase in processing capacity in the timber industry should help the overall growth in the economy.

For 1980 the position is uncertain but with reasonable weather conditions some improvement in agricultural output is probable while there should be further gains from the timber industry.



# THE COMOROS

## A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978-1979

### 1. Introduction

The economy was badly affected by the upheavals marking the post-independence period between 1975 and 1978. While GDP increased by an average of 1.8 per cent per year in 1970-1975, it declined sharply afterwards. According to the estimates available, over-all GDP for the period 1970-1977 decreased by 0.3 per cent while GDP per head decreased by 3.5 per cent per year. In 1978, with the change of Government in the islands, the return of internal stability and the resumption of international assistance, steps were taken to rehabilitate the economy. Exports have recovered strongly compared to 1977, and foreign assets have increased, so that the deterioration in the economy since 1975 has been halted, although inflation has continued at a high level, judging from the data on monetary expansion. No production figures are available for 1979. Co-operation agreements have been signed, most notably with France, and substantial aid obtained from Arab countries.

### 2. GDP by industrial origin

The most recent official figures date from 1975, but no major changes in the economic structure have occurred since that time. The economy is dominated by agriculture, which is based on the cultivation of a small number of export crops, the most important of which is copra. In 1975, agriculture contributed 41.7 per cent of GDP at factor cost, and its share in GDP may have increased because of the stagnation or decline of the other sectors. Industry contributed 23.1 per cent of GDP in 1975, most of it taking the form of construction, while the share of manufacturing was small, accounting for a mere 8 per cent of GDP. The share of services in GDP was high at 43.2 per cent; indirect taxes accounted for 9.4 per cent.

The Comoros: Table 1. GDP by industrial origin (1975 prices) (millions of CFA francs)

	1970	Percentage	1975	Percentage
Agriculture	5 127	40.7	5 718	41.7
Industry	3 275	24.0	3 171	23.1
Trade	3 048	24.2	3 847	28.0
Transport	188	1.5	30	0.2
Public services	1 282	10.2	1 141	8.3
Other services	845	6.7	904	6.6
GDP at constant prices	13 766	109.4	15 011	109.4
Indirect taxes net of subsidies	1 182	9.4	1 289	9.4
GDP at factor cost	12 584	100.0	13 722	100.0

Source: Official data.

The ECA guess estimates of GDP for the years following 1975 show an increase in the share of agriculture from 45.4 per cent of GDP at factor cost in 1975 to 51.3 per cent in 1978. The share of the industrial sector remained unchanged at 20 per cent of GDP, while the share of services declined from 34.5 per cent to 28.6 per cent, chiefly because of the fall in the share of public administration value added from 7.3 per cent in 1975 to only 3 per cent in 1978. For 1978 itself the estimates recorded an over-all rate of growth of 1.9 per cent for GDP at constant factor cost, with agriculture growing by 1.7 per cent. Public administration registered a large increase following the change of Government.

### 3. Selected economic sectors

(a) Agriculture and fisheries. About 80 per cent of the active population depends on agriculture which is based on the cultivation of a few export crops. Food production satisfies only 50 per cent of domestic demand. In recent years, the food deficit has worsened despite Government efforts to increase food production.

The Comoros: Table 2. Agricultural exports (tonnes)

	1970	1975	1976	1977	1978
Ylang ylang	71	60	73	60	60
Copra	4 371	1 260	2 323	1 317	2 060
Cloves	277	562	850	220	392
Vanilla	144	211	124	230	117
Coffee	103	61	32	18	60

Source: Customs, Moroni, Comoros.

Export crops have been subject to wide fluctuations. The volume of exports in 1978 shows a substantial decline compared with the levels attained in 1970 and 1975. The volume of exports of copra, which is the most important export crop, declined from 4,371 tonnes in 1970 to 2,060 tonnes in 1978. Relative to 1975, copra production has increased, but production of all other crops has declined or remained stagnant. Clove production, which reached a maximum in 1976, then declined sharply, though export figures indicate a new rise in 1978.

Fish production is small and occupies only 3,500 fishermen despite the potential of the waters around the islands. Fishing methods are primitive and the scarcity of fish is demonstrated by the fact that it is as expensive as imported meat.

(b) Industry. Activities are limited to the processing of export agricultural products, a brick factory, a saw mill, a soap factory and a bottling plant for soda and soft drinks. In 1977 a plastic sandal factory was built. The level of activity is low. In 1978 ECA estimates indicate a growth of only 1.6 per cent at constant prices in industry including construction; the rate of growth of manufacturing was only 2.2 per cent.

(c) Tourism. Despite the opportunities for tourism in the islands, this sector is underdeveloped and the number of tourists very small; only 20,000 tourists have visited the country since 1970, with an average stay of less than 5 days.

#### 4. Foreign trade and balance of payments

There are no data available on foreign trade for 1978. The data available for the period 1970-1977 show a persistent trade imbalance, with imports being roughly double exports. Since 1975, imports have declined, amounting to CFA francs 4 billion in 1977 against some 5 billion in 1975, while exports have increased somewhat to 2.2 billions in 1977 against 2 billions in 1975, despite a slight drop relative to 1976. Most exports (95 per cent) are accounted for by four products only: perfume plants, vanilla, cloves and copra. As regards imports, the greatest share is taken by consumer goods and in particular food.

The Comoros: Table 3. Foreign trade (millions of CFA francs)

	1970	1975	1976	1977	1978
Imports	2 433	4 924	2 119	4 053	...
Exports	1 380	2 037	2 223	2 203	...
Balance	-1 053	-2 931	-896	-1 850	...
Net foreign assets	...	520	2 077	416	1 355

Source: Customs and other official data.

There are no data on the balance of payments because the central bank does not record operations on non-factor services and private capital, but the changes in the net foreign assets give some indication of the over-all balance. In 1978 foreign assets increased by 0.9 billion against a decrease of 1.6 billion in 1976. This corresponds to the renewal of external assistance to the Comoros, after the steep decline recorded in 1976 and 1977.

#### 5. Development aid and external debt

The net flow of aid to the Comoros fell drastically after 1975. While, in 1974-1975, it averaged CFA 5.45 billion a year, it fell to only 1.9 billion in 1977. In 1978, with the change of Government, relations were re-established with France; which has agreed to renew its aid programme, at the same time as OPEC funds were made available to the islands. No data are available on the foreign debt.

#### 6. Government revenue and expenditure

Between 1975 and 1977 no budgetary estimates were prepared and the deficit increased with the cessation of French budgetary assistance. Central Bank borrowing and Arab funds were used to finance this deficit. The budget for 1978 indicates a drastic reduction of expenditure from 4,617 million CFA in 1977 to only 1,785 million, with development expenditure eliminated from the budget, while revenue fell by 23.6 per cent. The deficit was cut from 3 billion in 1977 to only 0.6 billion, but the 1978 situation is exceptional because of the change of Government and, with the resumption of foreign aid at its previous levels, expenditure will again increase.

The Comoros: Table 5. Money and banking (millions of CFA francs)

	1975	1976	1977	1978
Foreign assets	520	2 051	416	1 355
Claims on government	163	172	367	214
Claims on the private sector	2 127	1 119	2 002	2 203
Money	2 023	2 031	1 977	3 772
Other liabilities	787	1 317	803	1 027

Source: Official data.

7. Money and banking

Money supply proper rose in 1978 by 38.8 per cent, as against a fall of 2.7 per cent in 1977. This considerable rise is explained mainly by the increase in foreign assets, which tripled in amount, because government borrowing declined and credits to the private sector rose by only 10 per cent. It is quite probable that, after 1979, the rate of growth of the money supply will fall to more normal levels.

8. Wages and prices

Wages and salaries vary between CFA 7,200 and CFA 55,000 per month. No information is available on changes in the recent period. As regards prices, though there is no official index, the large increase in the money supply in 1978 combined with the rise in import prices must have given rise to a considerable degree of inflation.

9. Employment and unemployment

The active population numbers around 270,000 people, of whom 80 per cent are engaged in agriculture. The remaining 20 per cent were mainly absorbed by the public sector, but with the difficult budgetary situation which occurred after independence with the temporary cessation of French assistance, there was a drop in recruitment and, in consequence, some unemployment must have appeared.

(a) Education. There has been a very rapid increase in enrolment at all levels, but the very low standard of the teaching provided creates an acute problem as regards the value and quality of the education received. Most higher education is obtained either in France or the Arab countries.

The Comoros: Table 6. Education (numbers enrolled)

	1970/71	1974/75	1977/78	1978/79
Primary	15 125	28 898	22 299	49 940
Secondary	1 274	4 004	7 816	8 932
University	57	365	425	575

(b) Health. There are three main hospitals, 45 rural medical centres and 555 hospital beds, but qualified personnel is lacking and the medical equipment is not up to standard. Drugs are donated each year by international agencies and other donors, and WHO is helping to pay the wages of local staff and in the establishment of a medical training centre.

#### B. MAJOR PROBLEMS

After the disruption which occurred in 1975 and 1976 there was an acute budgetary crisis. The Government closed a number of administrative services, and was forced to postpone some payments, including payments of wages and salaries. With the recent resumption of foreign aid, the crisis is gradually being overcome. The Comoros cannot, from its own resources, finance public expenditure at the level which existed before the cessation of external assistance.

#### C. DEVELOPMENT POLICIES

The Government has already indicated the broad lines of its future policies, which include the achievement of self-sufficiency in food. Export crops will be maintained at their present level, and communications between the islands, as well as with the outside world, will be promoted. Foreign aid is crucial, however, and agreements for the provision of such aid have been concluded both with France and the Arab countries.

#### D. PROSPECTS

Immediate prospects for 1979 and 1980 are not bad if the former level of external aid to the Comoros can be restored, this will once again enable an acceptable level of public expenditure and investment to be achieved. Everything will then depend on whether the economy can be diversified and new opportunities exploited.

## CONGO

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978-1979

#### 1. Introduction

In 1978 the small expansion which took place in the economy of the Congo ended the period of recession which started in 1975, when oil production declined sharply. In real terms GDP rose by 4.1 per cent in 1978 which compares with a decline of 3.2 per cent in 1977.

Much of the growth in 1978 was due to the recovery in mineral output notably petroleum production, but there was also some expansion in the manufacturing and construction sectors.

The external trade deficit was significantly reduced in 1978 as a result of the substantial increase in oil exports and the slower rate of increase of imports. Because of the traditional deficit in the services account, the current deficit was maintained in 1978. A large over-all deficit was also significant feature of the central government finances. An increase in the external debt as well as substantial domestic borrowing financed the deficit. Debt rescheduling took place while there was a build up of payments arrears in the balance of payments.

The outlook for 1979 is for the recovery to continue as petroleum production has continued to rise and some increases in industrial and construction activities has taken place.

#### 2. GDP by industrial origin

Measured in current prices, GDP increased by 17.2 per cent in 1978 compared with 4.1 per cent in real terms, showing that prices judging by the implicit GDP deflator rose by 12.6 per cent. The increase at current prices was to a great extent due to a 27.3 per cent increase in value added in mining and to 25.4 per cent and 39.3 per cent increase in manufacturing and construction respectively. Agriculture, commerce, transport, communication and other services registered modest growth after years of virtual stagnation.

The rise in mining was due to the coming on stream of a new oil field; while that in manufacturing and construction reflects the partial recovery in output by some state enterprises and in public construction.

Congo: Table 1. GDP by source, 1975-1978 (millions of CFA francs)

At current prices	1975	1976	1977	1978
Agriculture, forestry and fishing	48 780	48 103	57 530	67 820
Mining	19 640	22 379	17 640	22 460
Manufacturing	6 460	7 710	7 820	9 810
Electricity and water	2 530	2 900	3 590	4 210
Construction	5 690	4 298	4 810	6 700
Commerce	29 640	28 542	30 670	34 990
Transport & communications	15 320	16 665	18 100	21 010
Public administration	21 440	24 968	27 860	29 710
Other services	1 580	1 701	1 840	2 310
GDP at current factor cost	151 080	157 257	169 860	199 020
Indirect taxes <u>less</u> subsidies	16 920	22 724	25 970	30 770
GDP at current market prices	168 000	179 981	195 830	229 790
GDP at constant factor cost	92 873	90 068	87 200	90 744

Source: Official data and ECA estimates.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. There are no direct estimates of total food crop production because most of the output is for subsistence. Available estimates of the marketed production of the principal food crops indicate that there has been very little growth in the marketed output. This fact is borne out by the seasonal shortages in the supply of basic foodstuffs such as cassava in urban areas. The Congo has become increasingly dependent on imported supplies and the recently observed shift in taste preferences for rice, the production of which is very limited in the Congo, has accounted for much of the increase in the imported food bill.

The difficulties in the traditional agricultural sector particularly its decreasing ability to meet urban demands are generally traced to difficult marketing conditions, unattractive producer prices and declining soil fertility in some regions.

As regards industrial crop production, data on the marketed output shown in table 2 indicate that during the 1977/78 season the volume of cocoa marketed declined by 25 per cent to only 2,275 tonnes. Cocoa marketing has fluctuated widely in recent years. The drop in output in 1978 was due largely to inadequate rainfall at the beginning of the season. The substantial increases registered for marketed coffee in 1977/78 was not due to any increase in local production which in fact declined. The increase originates from a sharp expansion in unrecorded coffee imports from Zaire and to a lesser extent overseas marketing of coffee on behalf of the Angolan Marketing Board.

Estimates of livestock holdings are available up to 1977 only when estimated herds were 70,300 cattle, 184,600 sheep, 118,100 goats, 82,700 pigs and one million poultry. Most of the demand for mutton, pork and poultry is met from domestic production but 75 per cent of beef requirements are imported. Cattle breeding is mainly on state farms, which, apart from the hazards of tsetse fly infestations, have in recent years been faced with operating and financial problems. Production in the ranches has consequently not expanded substantially.

Congo: Table 2. Commercial agricultural production, 1974/75 - 1977/78

	1974/75	1975/76	1976/77	1977/78
<u>Marketed output in tonnes</u>				
Cocoa	2 912	2 332	3 021	2 275
Coffee	1 344	1 507	2 191	5 184
Paddy rice	1 609	1 985	1 082	786
Palm kernels	815	600	263	689
Tobacco	1 014	1 007	606	431

Source: Congo; Office Nationale pour la Commercialisation de Produit Agricole (ONCPA).



Deep sea, coastal and inland water fishing are all practised in the Congo. Fish consumption is estimated at 30 kg per capita per year but domestic supplies provide only 23 kg of this 30 kg. Growth in the fishing industry has been constrained by inadequate equipment. The Government has commissioned studies on fishing and intends to boost the capital outlay in the Société Italienne - Congolaise D'Armement et de Pêche (SICAPE) which is partly owned by the state. There is also a co-operative programme to assist small scale fishing operations.

Value added in the forestry sector declined and has not fully recovered since the 1974-75 recession. In 1978 the volume of felled timber rose slightly as it did in 1977 but the output of 430,000 m<sup>3</sup> was still only about half the peak of 840,000 m<sup>3</sup> reached in 1969. Full recovery in the sector awaits the opening up of the reserves in the north of the country now for the most part inaccessible. Reserves in the south have been virtually depleted and a moderate reforestation programme is now underway in these areas with the planting in 1978 of about 600 hectares of eucalyptus trees. The objective is to replant 7,000 hectares with these trees over a period of three years.

(b) Mining. Petroleum production which declined by 9 per cent in 1977 rose sharply by 32 per cent to 2,421,000 tonnes in 1978 which equalled the peak level of 2,454,000 tonnes attained in 1974. The sharp rise in output in 1978 follows the coming on stream of production from the Loango field at a time when output was dwindling from the only other major field at Emeraude. The value of crude petroleum exports accounted for 69 per cent of total exports in 1978.

Petroleum production was expected to reach 2,608,000 tonnes in 1979.

Apart from petroleum, the production of all other minerals suffered setbacks in 1977. The potassium mines have remained closed following the extensive flooding there in 1977. This had consequently curtailed the use of the small quantities of natural gas that had been captured for local consumption. Gold production was stopped since mid-1978 because of poor results. In 1978, the deposits of copper, lead and zinc ore at the privately owned mines at Mpass were depleted and the mines closed. However, some 30,000 tonnes of enriched lead, zinc and copper ore was expected to be produced in 1979 from deposits at Diénguele.

Congo: Table 3. Production of major minerals, 1975-1978

	1975	1976	1977	1978
Crude petroleum (thousand tonnes)	1 812	2 010	1 829	2 421
Natural gas (thousand m <sup>3</sup> ) <u>a/</u>	16 754	15 254	9 423	1 695
Potash (thousand tonnes)	462	429	139	nil
Copper, lead and zinc ore (tonnes)	16	18	18	5
Gold (kg)	16	8	9	...

Source: Official data and Bulletin de l'Afrique Noire, No. 964, 28 June 1978.

a/ Utilized production.

(c) Manufacturing. Details of the output of the manufacturing sector in recent years are given in table 4. The main manufacturing activities consist of raw material processing and products to replace imports. Development of the sector has been constrained by the size of the market and the decreased competitiveness of Congolese products in the Central African market. The state operates most of the industrial enterprises. In 1977 and 1978 the deterioration in the financial position of most of the important plants continued. Capacity utilization was reported to have declined to between 25 and 40 per cent and large operating losses were incurred because of excessive staffing, inadequate management and lack of spare parts and supplies. The officially fixed price of many goods did not actually reflect production costs and this further aggravated the financial position in which many enterprises found themselves.

Congo: Table 4. Production of selected manufactures, 1975-1978

	1975	1976	1977	1978 estimate
Refined sugar ('000 tonnes)	20	23	10	14
Flour ('000 tonnes)	21	15	5	10
Palm oil (tonnes)	2 200	2 200	2 565	2 600
Groundnut oil (tonnes)	600	666	365	400
Soft drinks ('000 hl)	132	154	156	180
Beer ('000 hl)	343	394	415	500
Cigarettes (tonnes)	304	636	641	800
Soap (tonnes)	4 462	5 051	5 568	4 800
Shoes ('000 pairs)	805	712	714	790
Cement ('000 tonnes)	55	52	45	60
Printed textiles ('000 metres)	2 402	11 390	11 634	14 000

Source: Congo: Centre Nationale de la Statistique et des Etudes Economiques.

(d) Electricity. A small increase of only 1.2 per cent in total electricity produced had been expected in 1978. This would bring the total produced in million kilowatt-hours to 160 compared to 158.6, 146.9 and 110.3 in 1977, 1976 and 1975 respectively. Frequently, electricity has to be imported from Zaire to satisfy local demand in the Brazzaville area.

(e) Construction. Value added in the construction industry should have risen by 1.1 per cent in real terms in 1978. This would represent only a slight improvement on the two preceding years when the contribution of the sector to real GDP appears to have fallen.

(f) Transport services. Table 5 provides details on traffic developments in the transport sector in recent years.

Congo: Table 5. Selected transport indicators, 1975-1978

	1975	1976	1977	1978
<u>Port of Pointe Noire</u>				
Freight loaded ('000 tonnes)	2 715	2 269	3 084 )	3 872
Freight unloaded ('000 tonnes)	642	720	629 )	
<u>Railways</u>				
Passenger - km (millions)	223	249	260	282
Freight - (million tonne/km)	458	507	516	535
<u>Airports</u>				
Passengers handled (thousand)	71	75	78	78
Freight ('000 tonnes)	11	11	11	12

Source: Congo: Centre Nationale de la Statistique et des Etudes Economiques.

In the transport system in the Congo, frequent transshipment from roads or rivers to railways and ocean going vessels are necessary and these transshipments naturally increase transportation costs. Traffic on various available modes has nonetheless increased in recent years. There has been a particularly significant increase in the volume of goods handled at the Port of Pointe Noire and passenger traffic both on the railways and at airports has increased.

The most important transport project underway is the realignment of the Congo - Ocean railway. The latest cost estimates for the project have been put at CFAF 41.3 billion which is being provided by consortium of foreign lenders. The project is currently scheduled to be completed by the end of 1980.

#### 4. Expenditure and the GDP

Unfortunately total consumption has exceeded total gross domestic expenditure since 1975. In 1978, however, the negative savings figure declined to 1.4 per cent of GDP compared with 7.4 per cent in 1977.

Gross domestic capital formation including increases in stock rose by 38.2 per cent at current price in 1978 and was equal to 17.3 per cent of total gross domestic expenditure. The Government is taking measures to expand domestic savings as a means of increasing self-reliance and self-sustainment.

Congo: Table 6. Expenditure and the GDP, 1975-1978 (millions of CFA francs)

At current prices	1975	1976	1977	1978
Private consumption	143 250	154 029	173 510	192 980
Public consumption	31 000	33 976	36 780	40 120
Gross domestic fixed capital formation	33 224	27 829	27 560	38 020
Increase in stock	2 776	2 325	1 140	1 650
Export less imports of goods and services	-42 250	-38 178	-43 160	-42 980
Total GDP at market prices	168 000	179 981	195 830	229 790

Source: Official data and ECA estimates.

#### 5. External trade and balance of payments

In 1977 the Congo moved into deficit on its external trade account but in the first half of 1978 there was a big improvement because of a substantial increase in oil exports and a slower rate of increase in imports.

Official data on the balance of payments for 1978 are only available for the first half of the year. The deficit for goods and services fell markedly and with an increase in net government transfer receipts the current account deficit fell to CFAF 8.65 billion equal to an annual rate of CFAF 17.3 billion. The capital inflow ceased in the first half of 1978 and the position could only be covered by a further fall in net foreign assets and probably by an increase in payment arrears.

Congo: Table 7. External trade and balance of payments, 1975-1978 (billions of CFA francs)

	1975	1976	1977	1st half 1978
<u>External trade</u>				
Exports including re-exports	47.50	51.62	50.11	32.27 <sup>a/</sup>
Imports	36.38	42.17	50.45	25.64 <sup>a/</sup>
Balance	+11.12	+9.45	-0.34	+6.63 <sup>a/</sup>
<u>Balance of payments</u>				
Goods and services (net)	-55.68	-57.64	-46.26	-14.13
Private transfers (net)	-4.87	-5.47	-6.68	-0.34
Government transfers (net)	6.73	8.77	5.43	5.78
Capital	42.22	35.80	31.59	-2.19
Reserves and related items	3.99	4.42	7.44	2.96
Errors and omissions	7.61	14.12	8.48	7.90

Source: IMF, International Financial Statistics, vol. XXXII, No. 10, October 1979.

a/ Balance of payments figures of estimates based on same.

#### 6. Development aid and external public debt

As shown by the balance of payments data, grant aid receipts by the government (net government transfers) rose substantially in 1975 and 1976. They fell in 1977 but appear to have increased to about CFAF 11 billion in 1978.

Congo's external public debt rose rapidly following the petroleum boom of 1974. In 1978 the debt was estimated to have reached CFAF 151.4 billion. Recent increases in external obligations were to help meet the costs of the 1978/1979 action programme and were contracted for the most part by heavy borrowing at unfavourable terms in the Eurodollar market. The debt service burden was reported to be about CFAF 17.4 billion in 1978 which represented about 23.5 per cent of estimated total earnings from the exports of goods and services in that year. As the annual debt service burden was expected to rise further in the years to 1982 debt rescheduling has been arranged so that the payments do not impose too heavy a burden on the economy.

## 7. Government revenue and expenditure

In 1978 current revenue increased by 19 per cent to reach CFAF 60 billions. However, current expenditure rose by about 21 per cent and investment expenditure doubled; the increase in both causes being due to a carry-over of expenditure from 1977. The budget deficit thus widened substantially in 1978 to CFAF 15.9 billion but was still below the 1975 level when the large scale implementation of investment projects raised capital expenditure significantly and brought about a deficit of CFAF 20.4 billion. The bulk of the over-all budget deficit in 1978 was financed by internal borrowing (CFAF 15.2 billion) which would reflect significant increases in public sector payments arrears during the year.

The 1979 budget provided for a sharp cut in current expenditure which should reduce the over-all deficit even though investment expenditure was scheduled to rise to CFAF 7.8 billion.

Congo: Table 8. Government revenue and expenditure, 1975-1979 (billions of CFA francs)

	1975	1976	1977	1978	1979 estimates
Current revenue	44.3	47.8	50.4	60.0	54.1
Current expenditure	46.6	48.5	57.5	70.1	60.8
Capital expenditure	18.2	8.5	2.5	5.0	7.8
Other treasury operations (net)	0.1	0.6	-0.8	-0.8	...
Over-all balance	-20.4	-8.6	-10.4	-15.9	...
Financed by external borrowing	5.4	-2.8	-1.9	0.7	...
Financed by internal borrowing	15.0	11.4	12.3	15.2	...

Source: IMF Survey, May 7, 1979 and national data from the Congo.

The monetary aggregates given below show that net claims on Government by the banking sector rose from CFAF 10.12 billion at the end of 1975 to CFAF 20.07 billion at December 1978. Deficit financing has averaged CFAF 3.3 billion a year over this period. In 1975 itself the figure was CFAF 5.5 billion.

## 8. Money and banking

Money supply including quasi-money rose by 6.9 per cent in 1978 having risen by only 2.1 per cent in 1977. The expansion in the money supply since 1975 has been averaging 8.4 per cent per annum.

Congo: Table 9. Monetary survey, 1975-1978 (billions of CFA francs)

	End 1975	End 1976	End 1977	End 1978	May 1979
Net foreign assets	-0.85	-2.61	-7.11	-7.73	-7.39
Domestic credit					
Net claims on Government	10.12	11.77	16.86	20.07	16.02
Claims on private sector	29.30	38.02	38.93	39.42	41.55
Money	26.90	31.27	30.62	32.95	31.71
Quasi-money	2.16	2.62	3.87	3.92	4.93
Long-term foreign borrowing	2.71	3.95	4.98	5.49	5.62
Other items (net)	6.77	9.33	9.20	9.37	7.92

Source: IMF, International Financial Statistics, vol. XXXII, No. 10, October 1979.

The low rates of monetary expansion have been due to the continuous decline in net foreign assets which has somewhat offset the rise registered in domestic credit. In 1978 net claims on the Government increased by CFAF 3.2 billion or by 19 per cent. The increase was mainly composed of subscription to equipment bonds, the use of counterpart of loans from the Trust Fund, and advances from commercial banks. Advances from the Central Bank are subject to rigid ceilings imposed by the regional Bank of Central African States (BEAC) of which Congo is a member. Claims on the private sector which includes credit to state enterprises rose by only 1.3 per cent in 1978. The rate of increase slowed down considerably in 1977 and 1978 because most of the growth in the economy came from the oil sector which does not make much use of borrowing from domestic banks.

In the first five months of 1979 the money supply including quasi-money fell slightly mainly because net claims on the Government by the banking system were reduced by 20 per cent. This is indeed a welcomed step in the right direction

## 9. Wages and prices

There have been no increase in wages since January 1975 when the guaranteed minimum wage levels were raised by between 18 to 70 per cent depending on the wage levels and categories. These increases raised the guaranteed minimum hourly wages to CFAF 67.50 for the lowest paid categories and CFAF 148.54 for the highest paid.

There has also been no increase in the public sector salary scale since January 1975 when average salary increases ranging from 7 per cent for the highest public employees and 60 per cent for the lowest paid were granted.

In 1977 the calculation of a monthly price index which had been pursued since 1964 was discontinued and preparations started for new price indices. The old index was being discarded because it covered only the high income group in the city of Brazzaville. The new index is intended to extend the coverage to all income groups but would still be based in Brazzaville. Data on this index are available only for the first 10 months of 1978 and indicates, in general, modest price increases for the year. For the year as a whole the index is estimated to have increased by 5.6 per cent. This relatively small rise is attributable to the increase in output, lower import prices and the deflationary policies pursued since 1977.

The prices of such essential goods as rice, salt, meat, cement and also water, electricity and gas are fixed by the Government. Except for water, electricity and gas, the average prices of which were raised by 14 per cent 1977 and again by 18 per cent in 1978, the prices of all the other controlled items have not changed since 1972. The Government introduced uniform fixed retail prices throughout the country in July 1977 but this had to be abandoned when the State retailing company (OPHACOM) was being undersold by private traders in the south who could do so because of the lower costs of transportation in that region.

## 10. Employment and unemployment

Available data relates only to employment by the Government and by the state enterprises. Total Government employees were 37,928 in 1978 compared to 35,853 in 1977 and 32,396 in 1976. In 1975 employment in state enterprises reached 27,900. This number should have declined since, following the closure of some industrial enterprises such as the potash mines and the implementation of the new recovery programmes which have called for cutbacks in excessive manning in many of the state enterprises. As a result of this the unemployment situation should have worsened.

However, it is government policy to absorb all high school and university graduates into employment. These are being offered jobs in the public sector whenever they are unable to find employment elsewhere.



## 11. Other social sectors

(a) Education. In 1977 primary school enrolments reached 330,457 and the enrolment rate was 98 per cent of all children between the ages of 6 and 11, one of the highest in Africa. Secondary school enrolments were 122,963 and there were 4,815 students in higher education.

Congo is faced with an oversupply of graduates in general education. There is now a definite policy to encourage training in scientific and technical fields.

(b) Health. As noted in the last issues of this survey, there were 209 persons per hospital bed in 1977. There was also one doctor for every 8,000 inhabitants and the number of nurses and midwives was 2,621 for a total population estimated at 1,442,000 in 1977.

(c) Income distribution. Government social programmes pursued since the early 1970's have helped reduce income disparities. These have made health facilities more accessible to lower-income groups and have provided more employment opportunities. There seemed to have been a widening of urban-rural disparities, however, as the oil boom financed an increased wage bill for public servants while at the same time high marketing costs inhibited significant increases in producer prices for farmers.

## B. MAJOR PROBLEMS

While some economic expansion took place in 1978, Congo has not been able to fully adjust its financial position which was put out of gear by the expansionary fiscal policies adopted in 1974 when it was thought that oil receipts were going to continue at a high level as a very important source of revenue. Difficulties are still encountered in attempts at containing current expenditures and in financing the budget deficits.

The state of the public enterprises has again attracted much attention on the part of the Government during the period under review. The difficult financial position faced by most of these enterprises which led to inadequate maintenance and replacement of equipment in the face of technical and management difficulties persisted in 1978. During the year, recovery programmes were launched for a number of these enterprises. Through a foreign commercial bank loan, the Government was able to infuse new capital into the cement plant, the Société des Textiles du Congo (SOTEXCO), the sugar complex (SIACONGO) and the fishing concern SICAPE. Combined with improvements in management and sharp cuts in labour and more selective recruitment practices, some state enterprises recovered somewhat in 1978. However, implementation of the recovery programmes was delayed for a number of other enterprises because of a shortage of financial resources.

The growing inability of the traditional agriculture sector to satisfy the food requirements of the urban centres has become a major problem. The origin of this state of affairs is of course traceable to the long neglect of small-holder farming in favour of large-scale state farms. There has been an inadequate provision of modern inputs and extension services for the traditional agricultural sector. The rural transportation network has been little improved and farmers have been unable to take advantage of opportunities offered by the growing urban market. These have combined with prevailing low producer prices to make the rural areas less attractive.

In an effort to revive this sector, a food crop agency (Office des Cultures Vivriere, OCV) and a cash crop agency (Office du cafe et du Cacao, OCC) were established in mid-1978. Both these offices are expected to function as comprehensive agricultural development agencies providing inputs and extension services. A large proportion of their funding has already been secured through external loans. An agricultural development levy on personal incomes and a stabilization fund to be financed from sales of cash crops were also introduced to help provide the new offices with financial resources.

#### C. INTERNAL DEVELOPMENT POLICIES

In 1979 the Government announced a financial programme which was to be supported by a stand-by arrangement with IMF. The major emphasis of the programme was to improve public sector finance and strengthen the balance of payments through a reduction of both over-all budgetary and balance of payment deficits, an increase in domestic credit and a reduction in the growth of the external debt.

#### D. PROSPECTS FOR 1979 AND 1980

With the expected increase in output of crude petroleum from 2.4 million tonnes in 1978 to 2.6 million tonnes in 1979 and given the rise in average oil prices in 1979, there is little doubt that the recovery that began in 1978 will continue probably at a faster rate in 1979 and 1980. Industrial production is also expected to rise as the programme of rehabilitating the state enterprises is implemented.

Developments beyond 1980 will depend on whether new oil reserves are exploited since production of the existing fields is expected to taper off from 1980. This uncertainty should underline the importance of the current emphasis being placed on the revival of the agriculture and forestry sectors.

## ETHIOPIA

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978/79

#### 1. Introduction

The Ethiopian economy experienced a broadly based recovery in 1978/79. The gross domestic product showed a real growth of 5.3 per cent over that of 1977/78. Crop production increased by 7 per cent, while output of state manufacturing enterprises grew by 35.5 per cent. With increased supplies available the rate of increase of the Addis Ababa retail price index was reduced to 12.9 per cent. Central Government recurrent revenue rose by 16 per cent but the recurrent expenditure was reduced by 5 per cent. This resulted in a current budgetary surplus which reduced the Central Government's borrowing from the banking system by 7.5 per cent in 1978/79 compared with the level of 1977/78. This coupled with the slight decline in foreign reserves helped keep monetary expansion at the same level of 14.5 per cent in 1978/79 as in 1977/78; the major determinant continues to be credit to industrial, trade and agricultural public enterprises rather than to the Central Government. Employment expanded by over 100,000 between 1975 and 1978/79 and of this 31,000 was in permanent employment.

This very real recovery in 1978/79 over the preceding year has been realized through the campaign for national revolutionary development. During the period 1974/75 to 1977/78, the major preoccupation of the people and the Provisional Military Administrative Council had been to consolidate the gains of the revolution. The successes scored on the domestic fronts particularly during the first half of 1978, enabled the Government and people to turn the focus of their attention towards the economic front. Thus in October 1978, the National Revolutionary Development Campaign and Central Planning Supreme Council were established by proclamation. <sup>1/</sup> The Supreme Council, endowed with wide powers of planning and supervision of the national economy, has been quickly staffed with qualified personnel drawn from various government organizations. Branch offices in the 14 administrative regions were established.

The objectives of the first year of the Development Campaign Programme were: (i) to reduce food shortages; (ii) to raise industrial production especially of consumer goods, agricultural implements, and exports goods; (iii) to rationalize the domestic distribution of goods and augment the level of foreign exchange resources; and (iv) to speed up the rehabilitation of war victims and reduce the extent of socially undesirable activities.

The Campaign's objectives for the agriculture sector were to be met through expanding the area cultivated by state farms by 32,500 hectares and increasing the supply of inputs and services to private farmers. The effort in the industrial sector concentrated on measures for raising the productivity of existing plants through approved management, increased shift working, reduced bottle necks in the flow of supplies, repair of machinery, improved maintenance of equipment, reactivation of the industrial capacity in Eritrea, and accelerated training of workers. In the commerce sector, the strategy was to increase the state's share in distribution activities by providing state enterprises with more facilities and funds and strengthening their management, improving the transport system through more efficient utilization of existing carriers, and rationalizing the licencing of trade activities. An improvement in exports was to be achieved chiefly by raising coffee exports to 100,000 tonnes through limiting smuggling and improving transportation as well as by drawing down stocks. The objectives in the social services area were to be met through rehabilitation, settlement, and retraining programmes.

<sup>1/</sup> See Proclamation ;No. 156, 1978, Negarit Gazeta issue.

In order to facilitate the implementation of the Campaign Programme as well as to improve the organizational capability for the development effort, the former Ministry of Commerce and Tourism was split into Ministries of Foreign Trade, Internal Trade, Coffee and Tea and a commission for tourism while the former Ministry of Agriculture was split into Ministry of State Farms and the Ministry of Africulture.

In his speech delivered on September 13, 1979 commemorating the Fifth Anniversary of the Ethiopian Revolution, Lt. Col. Mengistu Haile Mariam, Chairman of the Provisional Military Administrative Council stated:

"The achievements of the first year of the economic and cultural development campaign are on the whole encouraging. ... as a result of the development campaign industrial output has hit 93 per cent of the planned target for the year. ... In the development of state farms, it was planned to cultivate 82,600 hectares of land. At the initial stage, although it seemed to be difficult to implement the plan, it was later on possible to hit the target". 2/

Encouraging results were observed in the other sectors too. As far as exports are concerned, it was possible to reach nearly 90 per cent of the export target.

To further strengthen the drive for increased production and productivity, the Government issued two policy directives on the formation of agricultural and industrial producer co-operatives in June 1979.

The Second Year Development Campaign Programme is now underway. The gross domestic product is projected to grow by 7.3 per cent in 1979/80 at constant prices.

With the full drive of the Government to economic and social development and with the encouraging results so far achieved, the prospects for 1979/80 as well as for subsequent years appear brighter.

## 2. GDP by industrial origin

From 1973/74 to 1977/78, real GDP growth was 0.9 per cent per annum reflecting the difficulties encountered in socio-economic development as the diversion of resources towards defence and maintaining internal peace and order. In 1978/79, however, a real GDP growth of 5.3 per cent was achieved. This growth rate of GDP at constant factor cost is much higher than any achieved during the period 1968/69 to 1972/73 and compared with only 0.4 per cent growth per annum realized during the period 1974/75 to 1977/78. Particularly in 1977/78, GDP declined by 0.9 per cent over the previous year when a maximum defence effort was made.

Much of the growth in GDP in 1978/79 is attributable to the good harvest and improved industrial, water and electricity production as well as better results from transportation and distribution. It should be noted that unlike the commodity production and distribution sectors, the rate of growth of other services declined mainly due to the reduction in administrative and defence expenditure.

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2/ See Ethiopian Herald, 14 September 1979, p. 6.

Ethiopia: Table 1. GDP by source, 1975/76 to 1979/80 (millions of Ethiopian birr)

	1975/76	1976/77	1977/78 <sup>a/</sup>	1978/79 <sup>a/</sup>	1979/80 <sup>b/</sup>
<u>GDP at current factor cost by source</u>					
Agriculture, forestry, fishing	2 738.8	3 197.9	3 466.5	3 571.5	3 746.5
Mining	11.6	8.7	7.8	7.3	8.1
Manufacturing	585.9	612.7	610.0	710.5	753.1
Electricity and water	38.3	38.9	39.3	45.5	56.8
Construction	188.2	207.9	211.0	229.5	369.0
Wholesale and retail trade	565.4	611.3	592.5	752.9	766.2
Transports and communications	281.3	289.1	298.2	332.2	346.1
Services	1 083.2	1 146.2	1 235.0	1 311.9	1 311.2
Total	5 492.7	6 112.7	6 460.3	6 961.3	7 337.7
Indirect taxes less subsidies	474.0	690.3	745.5	824.0	880.5
Total at market prices	5 966.7	6 803.0	7 205.8	7 785.3	8 218.2
<u>GDP at 1960/61 factor cost by source</u>					
Agriculture, forestry, fishing	1 953.6	1 953.3	1 922.2	1 968.4	2 046.1
Industry - Manufacturing	172.0	176.0	169.1	215.2	233.9
Industry - other	412.8	426.0	414.0	442.0	560.3
Services	1 453.8	1 490.3	1 504.0	1 596.1	1 687.7
Total	3 992.2	4 045.6	4 009.3	4 221.7	4 528.2
Total at 1960/61 market prices	4 466.2	4 735.9	4 754.8	5 046.7	5 408.7

Source : Govt. of Eth. Central Planning Supreme Council; Planning and Programmes Department.

a/ Preliminary.

b/ Targets.

### 3. Selected economic sectors

(a) Agriculture, forestry, fishing. The agriculture sector accounted for over 46 per cent of GDP and over 90 per cent of exports in 1978/79. First priority in the Development Campaign had been accorded to this sector.

This sector had experienced relative stagnation and decline during the period 1970-1977. During the early 1970s, the decline in output was attributable to the drought and the former land holding system. In 1975/76, i.e. immediately after the issuance of the Proclamation which made all rural land public property, the agricultural sector registered a real growth of 2.7 per cent over the preceding year. There was, however, subsequent decline since then up to and including 1977/78 - due to a reduction in the area cultivated as consequence of counter activities by former landlords and transportation bottlenecks.

In 1978/79, output of the agriculture sector grew by 2.3 per cent in real terms. This growth rate is slightly lower than the one achieved in 1975/76 as well as lower than the annual rate of population growth. As a result of development campaign efforts, however, real growth of the agriculture sector is expected to expand by 3.9 per cent in 1979/80.

Over 96 per cent of the crop production originated from peasant farms. There are currently over 25,000 peasant associations with about 7 million members. Policies for raising output from the peasant sector include the provision of fertilizers, improved seeds and improved practices for cultivation as well as the continued promotion of co-operative production.

The area under cultivation and production by state farms has been increased and strengthened. Government policy is for state farms to concentrate on the cultivation of raw materials for domestic industries and for export while leaving food crops for the small holder peasant producer.

(b) Manufacturing. Manufacturing accounts for only 5 per cent of the gross domestic product and the range of products in the main covers food, beverages, textiles, leather, footwear, and tobacco. Output of this sector which showed real growth rate of 2.4 per cent per annum during the period-1970-1978 showed an unprecedented growth of 27.3 per cent in 1978/79 over the preceding year.

The weak performance of the manufacturing sector manifested in the post-revolution period as a result of inadequate supply of spare parts, raw material shortages and mower failure had been significantly improved by the Development Campaign. State manufacturing enterprises which account about 90 per cent of manufacturing output expanded their gross value of production by 35.5 per cent thus enlarging the relative contribution of this sector to GDP.

The food sub-sector which accounts for 30.4 per cent of total manufacturing output increased its output by 35.1 per cent over that of 1977/78. The second largest sub-sector textiles registered an increase of 34.5 per cent. During the three years preceding the Development Campaign, the manufacturing index output had fallen by 8.5 per cent but the strong recovery in 1978/79 more than restored all the fall in this difficult period.

(c) Mining, petroleum and energy. Although this sector accounts for only 1.6 per cent of real GDP, considerable potential exists in mining particularly for copper and potash for which projects are in progress and in energy for utilizing hydroelectric and geothermal power sources. At present only two small-scale mining operations exist; gold in the southern region and platinum in western region. Gold and platinum mining which had been stagnant due, partly, to obsolete technology used and partly due to security conditions are expected to improve in 1979/80 as the result of the Development Campaign.

Electricity production had been stagnant up to mid-1978 in line with over-all economic activity and especially the decline in industrial output. Recently, however, electricity production has been increasing at well over a 10 per cent a year, reflecting the growth of industrial production. The revival in electricity production is expected to continue, thus entailing new investment in expanding generating capacity.

(d) Construction. The free availability of land since the issuance of the Proclamation which made urban land and extra houses public property together with the easing of credit and the formation of housing co-operatives has spurred residential construction activity. The shortage of building materials particularly of cement has, however, constrained the sector's progress. Attempts are currently being made by the Ministry of Urban Development and Housing to rationalize the use of cement through improved standardization of housing construction. Construction activity is expected to remain buoyant.

(e) Transport. The overland transportation bottlenecks, which constituted a serious problem in 1977 and early 1978, have been largely overcome through the acquisition of additional trucks and improved management of trucking operations. The country has been divided into five transport zones in order to prevent the concentration of trucks into the most lucrative business areas. The overland bottlenecks between Addis Ababa - Assab and Massawa - Asmara have been overcome.

As far as the expansion of the road network is concerned, the fifth highway programme which began in 1976 had aimed at upgrading 1,150 kilometres of roads to paved standard, resurfacing 855 kilometres of asphalted roads, constructing 3,183 kilometres of feeder roads, and opening 6,340 kilometres of rural roads. The inadequacy of external resources has been a major constraint in the realization of this programme.

#### 4. Expenditure and the GDP

Between 1970 and 1977 consumption expenditure had risen at a faster rate than GDP and consequently domestic savings had been falling. The consumption/GDP ratio which was on the average 0.89 during 1969/70-1971/72, declined to 0.87 in 1973/74 mainly as a result of drought, but rose to 0.92 and 0.95 in 1975/76 and 1976/77 respectively. Public consumption which accounted on the average for 10 per cent of GDP during the period 1969/70-1971/72, rose to 15 per cent in 1976/77. Thus the increase in consumption could be attributed to the rise in government spending resulting from the high defence expenditure. In 1977/78 and 1978/79 consumption expenditure was continued at high and increasing levels but in 1978/79 the strongest rise was in private consumption.

Gross fixed capital formation grew at annual rate of 2.5 per cent in the first half of the 1970s. Although there was a growth in investment at current prices since 1975, the level in real terms had been continuously declining.

Investment expenditure rose strongly in 1978/79 as a result of the Development Campaign but in that year was financed largely from the much greater inflow of external resources.

#### 5. External trade and balance of payments

The trade deficit had fallen to only ETB 38.8 million in 1977 because of the high world coffee prices but in 1978 it widened to record the particularly high figure of ETB 309.1 million as coffee prices were falling at a time when imports had risen both because of higher prices and a higher volume, the latter generated by the boom in coffee prices in the previous year.

**Ethiopia: Table 2. Expenditure and GDP, 1975/76 to 1978/79 (millions of Ethiopian birr)**

	1975/76	1976/77	1977/78 <sup>a/</sup>	1978/79 <sup>a/</sup>
Private consumption	4 649.2	5 462.5	5 658.7	6 446.8
Public consumption	866.0	995.1	1 191.5	1 220.0
Gross domestic capital formation	509.5	565.4	570.6	732.7
Change in stocks	-	-	-	-
Exports of goods and services				
less imports of goods and services	-58.0	-220.0	-215.0	-613.7
Total	5 966.7	6 803.0	7 205.8	7 785.8

Source: Government of Ethiopia, Central Planning Supreme Council, Planning and Programming Department.

a/ Provisional.

**Ethiopia: Table 3. External trade and balance of payments, 1975 to 1979 (millions of Ethiopian birr)**

	1975	1976	1977	1978	Jan.-Apr. 1979
<b>External trade</b>					
Exports	497.8	500.6	609.0	633.6	221.6
Imports	647.9	729.5	727.8	942.7	353.6
Balance	-150.1	-138.9	-38.8	-309.1	-132.0
<b>Balance of payments</b>					
Goods and services (net)	-178.6	-197.5	-283.8	-406.3	
Private transfers (net)	29.8	44.9	29.0	40.2	
Government transfers (net)	52.6	85.7	84.2	133.3	
Capital	133.7	111.6	35.8	26.3	
Reserves and related items	-10.8	-28.3	125.6	181.3	
Errors and omissions	-26.7	-15.4	9.2	25.2	

Source: I.F., International Financial Statistics, vol. XXXII, No. 10, October 1979.



Ethiopia's exports consist mainly of coffee, hides and skins, oil seeds and pulses. Coffee accounts for over 70 per cent of the total value of exports. The value of exports which had increased by 18.7 per cent in 1977 over that of 1976 declined by 9 per cent in 1978 chiefly due to the drop in coffee prices and the reduced level of oil seeds and pulses exports. Efforts are being made through the Development Campaign to compensate for the fall in prices through increasing the quantity of exports. The target for 1979/80 in the Development Campaign is for a 46 per cent rise in the value of exports.

The quantity of coffee exported increased from 43,200 tonnes in 1977 to 66,300 tonnes in 1978 but the value dropped from ETB 519.3 million to ETB 502.3 million. Some 20,000 tonnes have already been exported during the first quarter of 1979. The Development Campaign has set a target of 100,000 metric tonnes of coffee exports for 1979/80.

The value of hides and skins, the second largest exports, increased by 39 per cent in 1978 as a result of the high prices prevailing in international markets. Exports of oil seeds and pulses, however, dropped substantially.

The value of imports increased by 29.5 per cent in 1978 over the level in 1977. In the first quarter of 1979, they rose by 51.5 per cent over the corresponding period in 1978 showing a particular high rate of increase. In 1978 the value of raw materials and semi-finished goods increased by 45.3 per cent.

The share of capital goods imports (machinery and transport equipment) increased from 27.8 per cent in 1977 to 38.3 per cent in 1978, an indication of the revival of investment activity.

The balance of payments is a major constraint upon economic growth. In 1978, the country's balance of payments position deteriorated and the international reserves of Ethiopia were reduced by ETB 131.3 million after a fall of ETB 125.6 million in 1977. The worsening of the basic position was mainly due to the rise in the current account deficit and a further fall in the net inflow of capital. The net capital inflow had been ETB 111.6 million in 1976 but fell to ETB 35.3 million in 1977 and ETB 26.3 million in 1978.

#### 6. Development aid and external debt

Net grant receipts have increased in value, from ETB 32.9 million in 1971/72 to ETB 140.8 million in 1977/78. The main items financed by these transfers were commodities (especially for drought relief), services and technical assistance. The amounts transferred are split about half and half between cash and kind. Although the terms of new loans and credit commitments appear to have hardened recently, the share of grants in total external assistance has increased and the over-all cost of external resources, i.e. loans, credits and grants have not increased.

In 1978, total foreign loan drawings by government including autonomous agencies amounted to ETB 131.3 million, an increase of 22.9 per cent over 1977. This significant increase was due to the disbursement of ETB 29.1 million from the IMF Trust Fund. The International Development Association still maintains its position as the major contributor and during the period under review accounted for 51 per cent of the drawings.

The total outstanding external public debt stood at ETB 1,092 million by the end of 1978 showing an increase of 9.7 per cent over the level in 1977. The total excludes the balance of ETB 21.8 million which Sweden wrote off. Ethiopia's indebtedness grew by 11.2 per cent per annum during the period 1970-1978.

The total debt servicing (principal plus interest payments) totalled ETB 58.7 million in 1978, a small decrease from the level of 1977. The country's debt service ratio to total exports, however, increased to about 9.3 per cent in 1978 from 8.6 per cent in 1977.

## 7. Government revenue and expenditure

The public sector in Ethiopia consists of the central government, local authorities and public enterprises but data are available only for central government.

Central government revenues have grown at an average rate of 20 per cent per annum since 1975/76 and current expenditure has risen by 13.4 per cent a year. Thus in 1978/79 provisional results show a small current account surplus. Capital expenditure has risen less rapidly than current expenditure and was ETB 350.6 million in 1978/79. The deficits on current account and capital expenditure have been financed by foreign grants and loans but more significantly by internal loans. In 1978/79, however, due to the restoration of peace and order, current expenditure declined by 5 per cent while current revenue increased by 16 per cent. The small surplus generated together with foreign grants and loans of ETB 198.5 million enabled central government borrowing from the banking system to be reduced to only ETB 81.2 million.

Ethiopia : Table 4. Government revenue and expenditure, 1975/76 to 1979/80 (millions of Ethiopian birr)

	1975/76	1976/77	1977/78	1978/79 <sup>a/</sup>	1979/80 <sup>b/</sup>
Recurrent revenue	701.1	1 010.4	1 152.0	1 347.0	1 555.2
Recurrent expenditure	875.9	1 019.5	1 335.9	1 276.5	1 554.5
Surplus/déficit	-94.8	-9.1	-173.1	60.5	-99.3
Foreign grants	77.2	56.6	55.6	36.0	151.6
External loans and credits	121.9	105.1	89.3	159.7	265.0
Capital expenditure	202.9	325.0	316.4	350.6	710.5
Financing required	175.6	173.0	344.6	91.9	393.2
Internal loans <sup>c/</sup>	220.3	125.1	345.0	81.2	393.2
Over-all balance	+41.7	-47.9	+0.4	-10.7	nil

Source: Government of Ethiopia: Ministry of Finance.

a/ Provisional.

b/ Budget estimates.

c/ From banking system.

For 1979/80 the budget estimates show a rise of 15.5 per cent in current revenue but a much larger increase of 29.6 per cent in current expenditure. This results in a current deficit of ETB 99.3 million and as capital expenditure is to rise to ETB 701.5 million, internal loans of ETB 393.2 million are required to supplement foreign grants of 151.6 million and foreign loans and credits of ETB 255 million.

### 8. Money and banking

Given the trends in expenditure since 1974, and despite good revenue performance, the Government has had to increase its reliance on domestic borrowing. Since the borrowing had been from the banking system mainly from the National Bank of Ethiopia, in the form of long-term bonds, it had a considerable influence upon money supply.

Credit to the Government has become a major determinant of money supply since 1975 but claims on the private sector and on other financial institutions has also increased substantially. Since December 1976 net foreign assets have declined. The ratio of money plus quasi-money to GDP has increased from about 16 per cent in 1973/74 to about 22 per cent in 1977/78 which is believed to have contributed to inflationary pressure.

Ethiopia: Table 5. Monetary survey, 1975 to 1979 (millions of Ethiopian birr)

	End 1975	End 1976	End 1977	End 1978	April 1979
Net foreign assets	645.2	671.2	576.0	417.1	390.9
Domestic credit:					
Net claims on Government	259.3	445.1	605.7	808.4	346.1
Claims on private sector	464.3	466.7	568.2	731.5	837.8
Claims on other financial institutions	112.9	135.3	171.0	286.2	353.3
Money	383.0	309.6	985.0	1 210.7	1 255.4
Quasi-money	301.8	449.9	473.2	483.2	496.9
Other items (net)	297.0	453.7	462.5	549.3	675.7

Source: IMF, International Financial Statistics, vol. XXXII, No. 10, October 1979.

In 1977, despite the government's heavy borrowing from the banking system monetary expansion measured by the growth of money and quasi-money rose by only 7.8 per cent but in 1978 the increase was 24.7 per cent and an important factor behind this expansion has been the increase in credit to the non-government sector in order to finance the Development Campaign. Total domestic credit was ETB 1,826 million at December 1978 a rise of 35.8 per cent over the level of December 1977. In the first four months of 1979 monetary growth fell to only 3.4 per cent.

#### 9. Employment, wages and prices

Public sector employment increased by about 100,000 between 1975 and 1978. In public sector manufacturing the number rose from 49,000 to 75,000, in state farms from 60,000 to 86,000, and for the central government from 60,000 to 100,000. Part of the increase in public sector employment, however, represents former temporary workers being given permanent employment.

Since 1975, with the land reform, and with rising agricultural prices (especially for food), the rural-urban gap has probably narrowed. The ratio of food to non-food prices in the Addis Ababa retail price index, has risen roughly one-third since 1975.

The average wage rate has risen since 1975 due to successive increases in the wages and salaries of the lowest-paid workers. Their remunerations were increased in stages until the level of ETB 285 per month for civil servants and ETB 450 per month for employees of public enterprises was reached. Wages above that level have been frozen since 1975. At present, the Wages Board which was recently established is undertaking studies in order to formulate a framework for wage determination and government policy.

As far as prices are concerned, the Addis Ababa retail prices index which rose by 21.8 per cent in 1976/77 and 18.5 per cent in 1977/78 showed a lower rise of 12.9 per cent in 1978/79. Further falls in the rate of price increase are expected as production increases and distribution improves as a result of the Development Campaign.

#### Addis Ababa Retail Price Index

	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>
Total index	161.6	192.2	234.2	277.7	313.6
Food	166.4	207.1	268.0	318.6	368.9
Clothing	184.5	199.8	210.2	234.6	257.1

#### 10. Review of social development

The major activities in the area of social development highlighted in the Development Campaign include a co-ordinated attack on social problems such as unemployment, orphanage, illiteracy, etc. In the field of education, the long-term goal as indicated in the National Democratic Revolution Programme, is to eliminate illiteracy, eventually to provide free education to the broad masses and to emphasize in education the studies of science and technology. The attack on illiteracy through the mobilization of students and teachers and the help of Urban Dwellers Association and Peasant Association has had successful results during the First Year Development Campaign. The illiteracy rate which was estimated at 93 per cent in 1977/78 is believed to have dropped to 75 per cent in 1978/79. The effort is to continue during 1979/80.

## B. MAJOR PROBLEMS

In his speech marking the 5th Anniversary of the Ethiopian Revolution, the Chairman of the Provisional Military Administrative Council has identified certain outstanding problems facing the economy. These are:

1. Shortage in investment and savings: the low level of investment has acted as a serious restraint on the expansion of aggregate output. Low domestic savings are a major determinant of this low level of investment.
2. Shortcomings in the construction industry: activities of the construction sector have been constrained by shortages of cement and by soaring prices of building materials. The impact was serious particularly in residential construction where a serious housing shortage exists.
3. The large trade deficit and the drain in foreign exchange reserves: as a result of fast increasing imports relative to exports and particularly the continuous rise in prices of imported fuel and capital goods there has been a deleterious impact on the country's foreign trade balance.
4. Inflation: as a result of increase in prices of imported fuel and manufactured goods; the low agricultural and industrial output relative to aggregate demand; and weaknesses in domestic distribution of commodities, the continuous increase of prices has had adverse effects on the already low standard of living. Although the rate of increase of the Addis Ababa retail price index dropped from 18.5 per cent in 1977/78 to 12.9 per cent in 1978/79, the drop has not really been commensurate with increases in agricultural and industrial production observed in 1978/79.
5. Shortages of basic goods to meet developmental and consumer needs: in this category fall commodities which have high linkage, e.g. cement and industrial raw materials such as wheat and berley.
6. Unemployment: although comprehensive and reliable unemployment data are lacking, and there are indications that the unemployment problem is improving, nevertheless, because of the deep-rooted nature of problem and the relatively high growth of high school leavers and drop-outs, unemployment remains a major area of concern.

## C. INTERNAL DEVELOPMENT POLICIES

The First Year Development Campaign Programme focused on agriculture, industry, and trade while construction, transport and communication, health, education and water sectors were also incorporated in the programme. The Congress of the Supreme Council met in early October 1979 and has approved the Second Year Development Campaign Programme. The Second Year Development Campaign seems to be more comprehensive than the First and attempts to tackle the problems indicated previously.

The objectives of the Second Year Development Campaign are:

1. To ensure that basic consumer goods such as food and textiles are produced to meet demands of the consumers and to provide improved services and management in housing, schools, potable water, transport and the like;
2. To strengthen the complementarity between agriculture and industry. This means encouraging the agricultural sector of the economy to produce enough raw materials both in quantity and quality as are needed for the industrial sector of the economy, and the latter's provision of supplies of various locally produced implements and tools;
3. To make improvements on the foundation laid so far by the First Development Campaign to solve the problem of unemployment and illiteracy, and to provide necessary support for orphans, and war victims;
4. To strengthen the participation of government and mass organizations in production and distribution so as to improve these and help stabilize prices;
5. To augment the foreign exchange earning of the country by increasing the quantity and variety of exportable agricultural commodities and industrial products;
6. To encourage and increase work productivity through preparing an incomes policy based on equality and justice;
7. To strengthen and expand producers and service co-operatives in order to enable the development of a modern production system

In order to realize the above objectives, strategies adopted by the Second Year Development Campaign Programme include: (i) increasing the level of savings and investment, (ii) raising the productivity of land, labour and capital, (iii) employing more labour intensive techniques, (iv) improving the organizational efficiency of state and mass organizations, and (v) expanding output of exportable commodities.

#### D. PROSPECTS FOR 1979 AND 1980

Prospects of economic and social development of Ethiopia in 1979 and 1980 appear brighter. As a result of efforts made during the Second Development Campaign real GDP is forecast to increase by 7.3 per cent in 1979/80. Agricultural GDP is expected to show real growth of 3.9 per cent which is higher than the 2.5 per cent annual population growth rate and is a clear indication of the desire for Ethiopia to eliminate food shortages as swiftly as possible. Manufacturing GDP is expected to expand by close to 9 per cent in real terms.

Gross fixed investment of ETB 1.3 billion is planned for 1979/80 which is about 17 per cent of GDP at market prices and represent a significant improvement over the previous years.

However, it is important to realize that the country's economic growth targets will continue to be constrained by balance of payments difficulties. Ethiopia's exports, with over 90 per cent originating from the agriculture sector, are exposed to vicissitudes of international market prices. Imports have been growing much faster than exports largely due to the sharp increase in the price of oil and capital goods. Despite the co-ordinated national effort to promote exports and to economize on the use of fuel, the recent oil price escalation has become a serious threat to Ethiopia's economic development.

## E. EXTERNAL RESOURCE REQUIREMENTS FOR ETHIOPIA

During the ten year period from 1968-1969 to 1977-1978 external technical assistance received by Ethiopia averaged ETB 73.7 million a year while the gross inflow of external loans averaged ETB 101.4 million. Total debt servicing was ETB 50.9 million in 1977/78 so after allowing for debt servicing the net inflow of external loans and assistance was ETB 129.4 million in that year.

Despite Ethiopia's potential, her exports are limited to a few agricultural products with coffee accounting for close to 70 per cent of current export earnings. It is projected that major improvements in the purchasing power over the estimated increase of about 1.5 per cent yearly only in the 1970's are unlikely to be achieved in the 1980's since prices of certain commodity imports like fertilizers, chemicals and oil are expected to continue their upward trend. It is, for example, being anticipated that in 1979/80, fuel imports could claim over 35 per cent of Ethiopia's total export earnings. These elements indicate that an increasing flow of aid to Ethiopia will be needed in the 1980's.

According to some more projections undertaken recently by UNCTAD, it is projected that under a scenario of a target growth rate of GDP of 5 per cent in the 1980's, Ethiopia would have a trade gap of approximately ETB 241.6 million or about 3 per cent of GDP in 1979/80 and of about ETB 504.6 million or 4 per cent of GDP by 1990. Under a scenario of doubling of per capita GDP by 1989/90 suggested by the Committee for Development Planning for least developed countries, the projected trade gap would be of the order of 10 per cent of GDP in the 1985-1990 period. These projections clearly show the extent to which there is a need to increase the flow of external assistance to Ethiopia if it has to achieve a larger measure of self-reliance and to succeed in its commendable present development efforts.

The first key areas identified for aid application in Ethiopia is the agriculture sector where there is: (a) considerable unutilized development potential with over 110 million hectares of arable land of which only about 10 per cent is currently cultivated; and b) large animal resources which have not yet been fully exploited. The second area of immediate aid application is manufacturing. This sector is saddled with dilapidated machinery whose replacement is overdue. Moreover, demand for basic industrial consumer goods had in recent years overtaken the available production capacity. A third area is power. Consumption of electric power has been growing at a fast rate and preliminary studies indicate that the country may be faced with a shortage of power supply by 1985.

## GABON

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978-1979

#### 1. Introduction

The economic stabilization programme introduced in 1977 had greatest impact in 1978 and there was a very large fall in investment expenditure which had a material effect on the country's GDP. The value of gross fixed capital formation had reached the exceptional level of 435 billion CFA francs in 1976 but this was reduced in the succeeding years to CFAF 226 billion in 1977 and only CFAF 103 billion in 1978. The stabilization programme was introduced because the public debt had risen so rapidly that its servicing and repayment was becoming unmanageable at a time of stagnation or falling receipts from crude petroleum exports. GDP at current prices fell by 11.6 per cent in 1977 and a further 20 per cent in 1978. Indications are that in both years there were also substantial reductions in GDP at constant prices.

The steep fall in investments in 1978 led to a significant reduction in imports and very rough data suggest that they were probably valued at around CFAF 130 billion while exports were in the region of CFAF 275 billion. The large trade surplus was used partially to cover the gap in earnings from services but also to repay some of the debts built up in the years to 1976. However, despite these movements it was not until 1979 that Gabon's net foreign assets began to recover. These assets, which had been valued at CFAF 26.5 billion at the end of 1975, fell to -CFAF 19.5 billion at December 1977 but were -CFAF 11.2 billion at May 1979.

Inflation measured by the average increase in wholesale and retail prices was progressively reduced in 1977 and 1978 with increases of 14.1 per cent and 9.8 per cent respectively compared to 18.8 per cent in 1976. By May 1979 consumer prices were 8 per cent higher than in May 1978 so the trend to lower inflation has continued.

Prospects for 1979 are better basically because of the substantial rise in crude petroleum prices and their impact on export earnings. However, the effect of the stabilization programme will be to reduce growth in the economy. The fall in money supply has been continuous since the end of 1976 and the impact of this fall in 1979 itself will be deflationary. On balance GDP at current prices should have risen in 1979 but at constant prices a further fall is in prospect mainly because of lower crude petroleum output and a further fall in investment activity.

#### 2. GDP by industrial origin

The extraordinary level of fixed capital formation achieved in 1976 had led to a massive rise in GDP contributed by the construction sector and to large rises in sectors such as commerce and non-Governmental services. But the scaling down of the investment effort in 1977 and 1978 caused a reaction and by 1978 construction and commerce were both contributing less at current prices to GDP than they had in 1975. There was also a substantial increase in the mining sector in 1976 but again a fall from the 1976 level so that in 1978 this sector's contribution to GDP was about the same as in 1975. In contrast, both manufacturing and agriculture showed continuous increases in their contributions to GDP in 1976, 1977 and 1978.



Gabon: Table 1. GDP by source, 1975-1978  
(billions of CFA francs)

At current prices	1975	1976	1977	1978
Agriculture, forestry and fishing	29.7	36.0	37.7	42.4
Mining and petroleum	205.5	244.8	235.1	208.4
Manufacturing a/	19.8	28.9	32.3	35.8
Construction	55.7	168.2	97.7	41.5
Wholesale and retail trade	33.1	68.9	40.0	23.0
Transport and communications	17.2	27.8	24.2	20.8
Other services	43.6	70.5	74.2	55.1
Administrative services	26.0	35.5	43.7	41.6
Total GDP at factory cost b/	430.6	680.6	584.9	468.6

Source: Bulletin de l'Afrique Noire, No. 1013, 25 juillet 1979.

a/ Includes electricity and water.

b/ GDP at market prices less import duties.

### 3. Selected economic sectors

(a) Agriculture, forestry, fishing. This is a relatively small sector of the economy but a majority of the population still lives in the rural areas. The food supply for the urban areas depends to a large extent on imports. Coffee and cocoa are commercial crops and sugar cane is being grown more extensively to provide sugar for the domestic market. There are projects to develop other commercial crops.

Gabon: Table 2. Agriculture and forestry production, 1975-1978

	1974/75	1975/76	1976/77	1977/78
<u>Commercial crops</u>				
Cocoa (tons)	4 869	4 549	3 573	3 718
Coffee (tons)	103	203	360	502
Sugar (tons)	...	...	3 300	7 000
<u>Forestry</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Okoume (thousands of m <sup>3</sup> )	1 068	1 095	1 273	1 226
Ozigo (thousands of m <sup>3</sup> )	75	81	70	69

Source: Marchés Tropicaux et Méditerranéens, No. 1758, 20 juillet 1979.

Bulletin de l'Afrique Noire, No. 1003, 16 mai 1979.

Banque des Etats de l'Afrique Centrale, Etudes et Statistiques, No. 60,

mars 1979.

In 1977/78 there were better results from cocoa and coffee production helped by higher producer prices. Sugar output reached 7,000 tons in 1978 and up to 14,000 tons were forecast for 1979.

Livestock ~~holdings~~ are very small and the fish catch is minimal in relation to the potential so there are substantial imports of meat and fish for consumption.

Forestry production recovered in 1977 but there was a small fall in 1978 with koume production 3.7 per cent less. As mentioned in last year's Survey the project for a wood cellulose plant is now under way.

(b) Mining, including petroleum. Uranium production in terms of metal content exceeded 1000 tons for the first time in 1978 and the total of 1,022 tons compares with 965 tonnes in 1976 and 906 tonnes in 1977. Exports fell from 1,079 tons in 1976 to 1,072 tons in 1977 and 1,018 tons in 1978. Output of manganese was reduced for the metallurgical ore but increased for the bioxide. As shown in table 3, however, total manganese ore production was only 1.71 million tons in 1978 compared 2.265 million tons in 1976 and 1.918 million tons in 1977. The fall in export demand was mainly responsible for this decline in production.

The years 1975 to 1977 were peak years for production of crude petroleum but in 1978 there was a fall in output from 11.267 million to 10.6 million tons at a time of relatively poor world demand. As a greater proportion of the output in 1978 was processed domestically this meant that exports of crude petroleum were reduced from 9.7 to 8.9 million tons. During 1978, new fields were discovered and are being brought into production.

Gabon: Table 3. Mineral and petroleum production, 1975-1978

	1975	1976	1977	1978
Uranium metal (tons)	677	1 079	1 072	1 018
Manganese ore (thousands of tons)				
Metallurgic	2 186	2 203	1 840	1 616
Bioxide	44	62	78	94
Crude petroleum (thousands of tons)	11 315	11 324	11 267	10 600

Source: Bulletin de l'Afrique Noire, No. 1003, 16 mai 1979

Exploration for minerals is being continued in Gabon and various new deposits of petroleum and manganese ore have been located.

(c) Manufacturing. There has been a rapid growth in new manufacturing establishments over the last few years and, despite the stabilization programme, there was a rise in the value of output in 1978. However, the output from industries using local timber was affected by the low level of demand on external markets and output of veneers and plywood was reduced. Similarly, production of cement fell in 1978 in line with the lower demand from the construction industry. Output of petroleum products increased as more use was made of the oil refineries.

The Government is actively pursuing its policy of industrialization and, as mentioned earlier, the project for the production of cellulose wood-pulp is now under development. Apart from this large project, smaller enterprises are now being emphasized.

Gabon: Table 4. Output of electricity and selected manufactures, 1975-1978

	1975	1976	1977	1978
Electricity (millions of kWh)	253	328	436	513
Flour (tons)	12 531	14 916	15 655	14 823
Sugar (tons)	-	500	3 252	7 000
Beer (thousands of hl)	341	374	462	519
Other drinks (thousands of hl)	95	125	187	183
Cigarettes (tons)	324	347	292	295
Textiles (millions of metres) <u>b/</u>	...	6.47	4.05	6.04
Petroleum products (thousands of tons) <u>a/</u>	201	1 454	1 592	1 714
Cement (thousand of tons)	92	107	180	134
Plywood (thousands of m <sup>3</sup> )	63.6	74.7	73.6	68.5

Source: Bulletin de l'Afrique Noire, No. 1003, 16 mai 1979.

a/ Crude treated.

b/ Prints.

(d) Electricity. There has been a high growth in electricity production since 1975 and output in 1978 was more than twice as high as in 1975. Installed capacity of the Société d'Energie et Eau du Gabon was 205,613 KVA in 1978 and output was 513 million kWh. Most electricity is used by the large industrial enterprises but the number of domestic consumers is increasing rapidly.

(e) Construction. The boom in this industry peaked in 1976 but since then output has fallen very drastically and the contribution of the sector to GDP at current prices in 1978 was less than in 1975. The economy became greatly over expanded with the investment effort attempted in 1976 and a period of retrenchment was required to ensure the country did not overreach itself in relation to its ability to repay loans and to meet loan service charges.

(f) Transport services. As shown in table 5, there was a particularly sharp fall in the tonnage of goods unloaded at the two main ports in 1978, the total of 676,200 tons being 50.4 per cent below the record figure of 1,362,300 tons of 1977. The tonnage of goods loaded was also reduced but by only 3.5 per cent from the figure of 12,555,100 tons of 1977.

The statistics for passengers and freight handled at Libreville airport in 1978 also show reductions of 7.5 per cent and 29.3 per cent respectively. These transport figures point to the success of the policy of stabilizing the economy.

However, one effect of the stabilization policy has been a postponement of the project for a port at Santa Clara which would have cost CFAF 30 billion but the construction of the Trans-Gabon railway is continuing although it is now running behind schedule. Only 45 per cent of the first section from Libreville through Franceville up to Nkjobe was completed at the end of 1978.

Gabon: Table 5. Selected transport indicators, 1975-1978

	1975	1976	1977	1978
<u>Port of Libreville</u>				
Freight loaded (thousands of tons)	190.7	160.2	145.8	190.5
Freight unloaded (thousands of tons)	520.7	1 088.2	1 176.7	582.5
<u>Port of Port Gentil</u>				
Freight loaded (thousands of tons)	10 725.2	11 555.6	12 409.3	11 790.3
Freight unloaded (thousands of tons)	172.5	208.2	185.6	93.7
<u>Libreville Airport</u>				
Passengers handled (thousand)	388.0	493.0	505.0	467.0
Freight (tons)	21 465.0	32 279.0	46 903.0	33 151.0

Source: Bulletin de l'Afrique Noire, No. 1013, 15 juillet 1979, No. 1021, 24 octobre 1979.

#### 4. Expenditure and GDP

The sharp fall in investment expenditure since 1976 has already been mentioned. In 1978 the total of gross fixed capital formation plus stock changes was reduced to CFAF 120.5 billion equal to 23.7 per cent of GDP; in 1976 the totals had been CFAF 528.5 billion and 73.5 per cent of GDP and in 1977 CFAF 301.8 billion and 47.5 per cent. The very high level of investment in the years 1975 to 1977, equal to 61.2 per cent of the GDP in those three years, was clearly unsustainable and was creating severe strains in the economy.

Gabon: Table 6. Expenditure and GDP, 1975-1978 (billions of CFA francs)

At current prices	1975	1976	1977	1978
Private consumption	108.7	118.3	140.3	156.2
Public consumption	56.5	76.0	95.0	124.9
Gross fixed capital formation	258.1	435.5	226.4	103.4
Change in stocks	24.8	93.0	75.4	17.1
Exports <u>less</u> imports of goods and services	14.3	-3.7	98.6	107.0
Total GDP at market prices	462.4	719.1	635.7	508.6

Source: ECA estimates and national data.

Between 1975 and 1978 consumption expenditure rose by 70 per cent but there was a much faster rise in public consumption (121.1 per cent) than in private consumption (43.7 per cent).

## 5. External trade and balance of payments

Crude petroleum production was reduced in 1978 and prices on world markets were lower, which led to a fall in realizations from crude petroleum exports of the order of CFAF 14 billion. However, there appear to have been larger exports of refined products and earnings from uranium also advanced. The figures given in table 7 are liable to substantial error and one source shows exports valued at CFAF 330 billion in 1977 and CFAF 287 billion in 1978.

However, what seems likely is that the trade surplus was again very large in 1978 and probably substantially higher than in 1977. Imports were reduced significantly in 1978 probably by as much as CFAF 33 billion as a result of the measures taken to stabilize the economy.

Gabon: Table 7. External trade and balance of payments, 1975-1978,  
(billions of CFA francs)

	1975	1976	1977	1978 a/
<u>External trade</u>				
Exports	201.9	271.5	269.0	275.0
Imports b/	115.7	153.0	163.4	130.0
Balance	86.2	118.5	105.6	145.0
<u>Balance of payments</u>				
Goods and services (net)	14.5	10.3	19.6	...
Private transfers (net)	-10.5	-13.9	-17.2	...
Government transfers (net)	8.5	10.2	8.1	...
Capital (net)	-2.3	-10.2	-15.0	...
Reserves and related items	-9.9	4.1	25.9	...
Errors and omissions	-0.3	-0.5	-21.4	...

Source: IMF, International Financial Statistics, vol. XXXII, No. 11, November 1979

a/ Very rough ECA estimates based on incomplete data.

b/ Derived from IMF DOT publications.

The balance of payments in transactions in 1976 and 1977 led to a high reduction in the level of the country's external reserves. The net capital flows in those two years moved outwards because of a very large short-term capital outflow which outweighed the inflow of long-term capital.

For 1978 there are no current data but the country's total foreign reserves were beginning to be built up again after the extraordinary declines recorded in both 1976 and 1977. However, there was little recovery in net foreign assets in 1978 itself although a movement in this direction started in the first half of 1979.

It has been reported that the external debt of Gabon had fallen substantially in 1979 indicating that significant repayments had been made.

## 6. Development aid and external debt

Because of the feeling of confidence engendered by the oil price rise in 1974, Gabon increased its investment effort very greatly in the years to 1976 and 1977 but foreign borrowing was used for much of the increased investment and as a result the disbursed foreign debt reached US 1.25 billion at the end of 1977. This sum is equal to more than CFAF 300 billion and included a high element of relatively short-term loans. The budget for 1977 showed public debt repayments of CFAF 67 billion and for 1978 and 1979 these totals rose to CFAF 120 billion and CFAF 122 billion respectively. Under the terms of an agreement reached in 1978 with foreign creditors and under the auspices of IMF, part of the debt was consolidated.

Development aid is important to Gabon and in 1977 the total was CFAF 22 billion. The balance of payments shows net receipts of government transfers of CFAF 8.5 billion in 1975, 10.2 billion in 1976 and 8.1 billion in 1977.

## 7. Government revenue and expenditure

The stabilization programme has as its main element the reduction in investment expenditure especially to avoid further foreign borrowing and to be able to repay some of the large loans of the years 1975 to 1977. Total expenditure was actually reduced in 1978 in line with the expected decline in revenue. Very large sums were allocated in 1978 and 1979 to repaying debts and if these sums are excluded total expenditure falls from CFAF 188.3 billion in 1977 to CFAF 123.7 billion in 1978 and CFAF 160.8 billion in 1979.

Gabon: Table 8. Government revenue and expenditure, 1975-1979  
(billions of CFA francs)

	1975	1976	1977	1978	1979
Receipts	151.4	193.1	255.8	242.5	282.4
Recurrent expenditure	44.2 a/	58.2 a/	84.6 a/	87.2	86.2
Capital expenditure					
Public debt	19.6	28.4	67.5	119.8	121.6
Other	87.7	106.5	103.7	36.5	74.6

Source: Bulletin de l'Afrique Noire, No. 1021, 24 octobre 1979

a/ Includes capital expenditure of CFAF 6.6 billion, 7.4 billion and 12.2 billion respectively.

The rise in Government current expenditure, excluding capital expenditure included in the current budget, is from CFAF 37.6 billion in 1975 to CFAF 87.2 billion in 1978, an average rate of increase of 32.4 per cent a year. In 1979 current expenditure was reduced from CFAF 87.2 billion to CFAF 86.2 billion.

The monetary aggregates given below include net claims on Government. The total rose sharply in both 1976 and 1977 with an increase in claims on Government by the banking system of CFAF 53.4 billion. However, in 1978 these net claims were reduced by CFAF 26.91 billion.

## 8. Money and banking

After the very large rises in domestic credit in 1976 extended to both the Government and the private sectors there was a further substantial but smaller rise in 1977 while in 1978 the sharp scaling down of net claims on the Government was accompanied by only a small rise in credit to the private sector. These movements in domestic credit were accompanied by a reduction in foreign assets in 1976 and 1977 but little change in 1978.

Gabon: Table 9. Monetary survey, 1975-1979 (billions of CFA francs)

	End 1975	End 1976	End 1977	End 1978	May 1979
Net foreign assets	26.52	22.81	-19.46	-19.29	-11.20
Domestic credit					
Net claims on Government	-11.61	21.10	41.82	14.91	19.85
Claims on private sector	66.42	103.20	124.71	129.83	120.72
Money	58.97	104.05	95.76	89.83	75.73
Quasi-money	11.98	28.43	33.81	22.94	27.80
Long-term foreign borrowing	3.46	4.00	4.09	3.74	3.80
Other items (net)	6.91	10.61	13.41	9.06	22.02

Source: IMF, International Financial Statistics, vol. XXXII, No. 11, November 1979.

The impact on the money supply (money plus quasi-money) of these various movements was to lead to an increase of 86.7 per cent in 1976 but falls of 2.2 per cent in 1977 and 13 per cent in 1978. This sharp fall in 1978 had an impact on the level of inflation but as it was accompanied by a reduction in the real GDP and thus the net result was a rise in average wholesale and consumer prices of 9.8 per cent.

Figures for the first five months of 1979 show some recovery in net foreign assets but a further fall in total domestic credit so that the money supply at May 1979 was 8.2 per cent less than at December 1978.

## 9. Wages and prices

There are two minimum wage levels in Gabon, one for agricultural and the other for non-agricultural workers. Since 1974 there has been an automatic increase of 2 per cent each time the consumer price index for workers shows a rise of the level. In August 1977 the minimum wage for non-agricultural workers was raised from CFAF 23,000 to 30,000 a month. In May 1979 a special bonus was awarded to Gabonese nationals raising their minimum to CFAF 40,000 a month.

The published index numbers on consumer prices and wholesale prices indicate that inflation has been reduced from 14.1 per cent in 1977 to 9.8 per cent in 1978 and a further fall seems likely for 1979.

## 10. Employment and unemployment

Gabon relies heavily on migrant workers including expatriates from Europe. Substantial immigration has been absorbed without strains on the social scene. However, with the stabilization measures taken, the economic slowdown in 1977 and 1978 led to some closures and particularly to the liquidation of projects set up

during the investment boom up to mid-1977. This has resulted in persons losing their jobs. The construction industry has been most affected by this sort of unemployment but there have also been ripple effects in sectors supplying the construction industry while consumer demand has also been reduced.

#### B. MAJOR PROBLEMS

The attempt to increase the investment level in the country drastically by heavy external borrowing led to over-heating the economy. Ultimately a stabilization programme had to be introduced and this in itself has led to falling expenditure on GDP at both current and constant prices and the emergence of unemployment.

In the latter half of 1979 it appeared that the stabilization measures had been largely successful, and the repayment of a substantial part of the external debt together with the consolidation of the remainder had led to a situation where growth of the economy based on a substantial but sustainable level of investment could be restarted. The rise in crude oil prices in 1979 helped in restoring the situation.

Within the economy which still has large natural resources to sustain its development for a considerable period, there is a shortage of middle and higher level manpower and even at the unskilled level there is a high dependence on migrant workers. The economy is heavily dependent on its mining sector and such dependence can produce problems which only diversification can resolve.

#### C. INTERNAL DEVELOPMENT POLICIES

The stabilization policy has already been mentioned. The programme has meant an end to large foreign borrowing for investment purposes and all investment projects are now subject to the over-all control of the Ministry of Planning. Up to 1979, with the need to repay foreign loans swiftly, the economy was subject to fairly stringent domestic credit controls and also to a curtailment of the Government's own investment budget.

Some part of the investment programme has been abandoned or postponed, but the basic strategy for development continues to be that of opening up areas with mineral and forest resources ready for exploitation. At the same time the manufacturing base is being expanded and the infrastructure made more appropriate.

#### D. PROSPECTS FOR 1979 AND 1980

The year 1979 will see a fairly large rise in GDP at current prices but only a moderate rise at constant prices. In 1980 there should be more funds available for investment so the chances are that there could be a more substantial rise in GDP at constant prices. However, much will depend on the demand for Gabon's major exports including crude petroleum and any setback in earnings from petroleum in particular would militate against the advance that would otherwise be possible.



## GHANA

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978-1979

#### 1. Introduction

The Ghanaian economy during the period 1978/79 was characterized by sluggish economic activity as well as severe inflationary pressures. In 1978, while consumer prices rose by over 70 per cent, the rate of growth in GDP in real terms is projected at around the previous year's figure of 1.2 per cent, much below the target of 5 per cent forecast in the country's five-year development plan covering the period 1975-1980.

Money supply increased continuously. In 1978 alone it rose by over 70 per cent mainly as a result of the heavy budget deficit financed by borrowing from the central bank.

The external sector also showed a deterioration. A rising level of imports coupled with sluggish growth in exports helped to produce imbalance in the external sector. As the country's balance-of-payments position continued to deteriorate, there was an increase in arrears of payments including those for current transactions. In the third quarter of the year the cedi was devalued by more than 50 per cent so that its value in terms of the United States dollar fell from 0.741 to 0.364.

In the face of the declining economic activity and the high rate of inflation, there were increased demands from workers for more pay and better conditions of service. The large increases in money incomes granted during this period only served to fuel the inflationary spiral bringing no real benefit to the Ghanaian worker.

As shown later the prospects for 1979-1980 are not expected to be materially better than in 1978-1979 but the coming into power of a new Government in September 1979 should help to speed up the recovery of the economy and its growth momentum.

#### 2. GDP by industrial origin

Since 1974 no final data on GDP have been published; there are however some preliminary estimates by the Central Bureau of Statistics (CBS) covering the period 1975 to 1977. According to the CBS data, in 1977 GDP is estimated to have risen at constant prices by 1.2 per cent (see table 1). This may be compared with declines of 4.8 per cent and 5.7 per cent recorded for 1975 and 1976. For 1978 there are as yet no published data on GDP but all available indicators point to a projected rate of growth of between 1 and 2 per cent.

Table 1 presents a breakdown of GDP by industrial origin in real terms for 1975 to 1977. It shows that there were declines in agricultural and industrial production in 1976 but in 1977 there was a slight increase in agricultural production. In 1976 there was some increase in the output of the transport sector and distribution and other services sectors which helped to offset the large falls in agriculture and industry.

In general the only change in the structure of GDP in 1977 was a rise of 5 per cent in the contribution from agriculture, forestry and fishing.

The level of inflation as measured by GDP deflators was 74.3 per cent in 1976 and 73.6 per cent in 1977.

Ghana: Table 1. GDP by source, 1970, 1975-1977 (millions of cedis)

	1975 <u>a/</u>	1976 <u>a/</u>	1977 <u>a/</u>
<u>At 1968 prices</u>			
Agriculture, forestry and fishing	838	720	756
Industrial production	463	404	392
Transport, storage and communications	88	91	90
Distribution and other services	709	764	764
GDP at 1968 market prices	2 098	1 979	2 002
GDP at current market prices	5 771	9 371	16 477

Source: Central Bureau of Statistics, Accra, Ghana.

a/ Preliminary estimates.

## 2. Selected economic sectors

(a) Agriculture, forestry and fishing. In 1977 the output from agriculture, forestry and fishing at constant prices increased by 5 per cent. This increase in agricultural production was the result of improved rainfall pattern. In 1978 agricultural production, especially food crops, probably increased again mainly as a result of the favourable weather conditions experienced in the second half of 1978. The forecast for 1979 is a total grain production of 801,000 tons compared with 772,000 tons in 1978 and 671,000 tons in 1977.

Ghana: Table 2. Food crop production, 1975-1978 (thousands of tons)

	1975	1976	1977	1978 <u>a/</u>
Maize	338	286	340	408
Rice	70	10	58	71
Millet	120	144	133	132
Cassava	2 360	1 818	2 332	...

Source: Ministry of Agriculture, Accra.

a/ Projected.

Cocoa production, the single most important agricultural product accounting for 8 per cent of GDP and over 60 per cent of total export earnings, has been declining steadily since 1975-1976. From a level of 397,000 metric tons in 1975-1976, cocoa production declined by 32 per cent to 268,000 tons in 1977-1978. The delining trend has been attributed to a number of factors including the cumulative effects of low producer prices, ageing trees, labour shortages and inadequate supplies of insecticides.

In a bid to revitalize the industry the producer price for cocoa was doubled in September 1978 to \$2,666 per ton and, in July 1979, it was raised further to \$4,000 per ton.

Timber output, which accounts for 4 per cent of GDP and 10 per cent of export earnings, has also been falling. The sluggish growth in timber output is attributable to problems over the equipment used, inadequate trucking and port facilities and the poor condition of access roads. Another important factor which has tended to discourage timber exports has been the past overvaluation of the Ghanaian currency. This has encouraged increased selling of timber on the domestic market where prices for wood and wood products are high at the expense of exports.

The decline in output is not limited to crops as output in the country's fishing industry has also been declining in the past few years. This has come about as a result of the lack of modern ocean-going fishing vessels as well as spares for existing ones. During 1977-1978, the State Fishing Corporation, the largest fishing company in Ghana, placed orders for eight new fishing vessels from Italy and the Netherlands and also embarked on a refitting exercise of its old vessels.

### Industrial production

The industrial sector of the economy comprises mining and quarrying, manufacturing, power, gas and water, and construction. In 1977, the total output of the industrial sector accounted for 20 per cent of total GDP. However, the output of the industrial sector has been declining since 1975; in 1976 production in real terms fell by 13 per cent and in 1977 it declined further by 3 per cent.

(b) Mining. The contribution of the mining sector has been declining since 1970. In 1970, mining accounted for 2.2 per cent of GDP but in 1976, the latest year for which data are available, it accounted for only 1.5 per cent of GDP.

Ghana: Table 3. Mineral production, 1975-1978

	1975	1976	1977	1978
Gold (thousands of fine ounces)	523.9	509.3	440.1	402.0
Diamonds (thousand of carats)	2 328.3	2 470.6	1 851.2	1 400.0
Manganese ore (thousand of long tons) a/	408.7	324.5	265.0	331.7
Bauxite (thousand of long tons) a/	314.5	260.2	268.8	339.3

Source: Central Bureau of Statistics, Accra.

a/ Of 2,240 lb weight.

In 1978 output of manganese ore and bauxite rose by 23 per cent and 28 per cent respectively but production of gold and diamonds, which are much more important, fell by 9 per cent and 28 per cent. Thus when weighted by their relative importance, the volume of mineral output measured by these four products fell further in 1978.

The country's mining industry has had to face many problems, including obsolete machinery and equipment, shortages of spare parts, a high incidence of strikes, rising labour costs and inadequate rail facilities, especially for bulk ores.

In 1979 the value of output of the mining sector is expected to be boosted by two favourable developments namely the 1978 devaluation of the Ghanaian currency and the prevailing high world market prices for gold and diamonds.

(c) Manufacturing. This is the largest subsector of industrial production and accounted for 48 per cent of total industrial production in 1976. In 1976, the last year for which disaggregated data are available, manufacturing recorded a decline of 24 per cent in total output.

Table 4 below gives the value of output for 1975 to 1977 at current prices for six of the major manufacturing sectors.

Ghana: Table 4. Manufacturing output by selected subsector, 1975-1977  
(millions of cedis at current prices)

Subsector	1975	1976	1977
Food, beverages and tobacco	269.3	202.2	186.5
Textiles	52.4	120.9	132.7
Metal products	43.4	54.7	51.0
Paper and printing	28.4	40.6	42.3
Pharmaceuticals	50.0 <sup>a/</sup>	66.0	68.4
Chemicals	45.2	42.7	40.7
Total	488.7	527.1	521.6

Source: Ministry of Industries, Accra. Central Bureau of Statistics, Accra.

<sup>a/</sup> Rough order-of-magnitude estimate only.

Reference to the figures shows that in 1977 output value was reduced in three out of the six subsectors. These three sectors were food, beverages and tobacco with a fall of 8 per cent, metal products down by 7 per cent and chemicals by 5 per cent; increases in output were recorded for textiles (10 per cent) paper and printing (4 per cent) and pharmaceuticals (4 per cent).

In 1978 the manufacturing sector is estimated to have operated at less than 50 per cent of its capacity. This low capacity utilization in an industry which depends heavily on imported raw materials and components resulted from the severe import and foreign exchange restrictions in operation. Other factors which hampered manufacturing production during the year were rising labour costs and lack of spare parts.

(d) Energy. Electricity production in Ghana is based mainly on hydro-power at Akosombo. Generation of electricity rose by 6 per cent in 1976 and 5 per cent in 1977. However, in 1978 as a result of the breakdown of the generating machinery in May, output fell by 10 per cent over the year as a whole.

It is projected that the existing capacity at Akosombo of 912 megawatts will not be adequate for the country's future demand for electricity and this has necessitated the construction of a second hydro-electric project at Kpong. Construction of this project, which started in 1977 with a capacity of 150 megawatts, is expected to be completed in 1981.

In late 1978 commercial production of offshore oil started near Saltpond, about 70 miles west of Accra. The initial production is 5,000 barrels a day and production is expected to increase when more wells have been drilled. At the moment agreements have been signed with five foreign companies for exploration of oil in various parts of the country.

Ghana's crude oil imports for 1978 were 1,029,200 tons indicating a fall of 15 per cent compared with 1977. The decrease in imports was largely the result of difficulties encountered in the procurement of crude oil. In 1979 imports of crude oil are expected to rise sharply by about 30 per cent.

(e) Construction. Construction activity (which accounts for 7 per cent of GDP) increased by 4 per cent during 1976, the last year for which disaggregated industrial data are available. The importance of the construction sector in the Ghanaian economy should not be underestimated for it provides employment to a large number of workers, both skilled and unskilled.

In 1977 and 1978 as the pace of inflation quickened, there was increased investment in construction, especially residential buildings. The level of construction activity, however, was constrained by the periodic shortages of building materials such as cement and iron rods whose imports were limited by the severe import and foreign exchange restrictions. In 1978 the two cement works in the country had to stop production during the course of the year because of the unavailability of imported clinker.

(f) Transport services. In 1977 the level of activity in this sector was reduced slightly in line with the generally flat economic situation. Data are not available to be able to comment on 1978 but the generally sluggish economy was not conducive to increased transport activity. However, the number of commercial road vehicles in use increased by 3,100 from 30,200 in 1977 to 33,300 in 1978.

The road system covers 20,000 miles of which 2,500 miles are tarred. It is linked to and is complemented by an 800-mile railway system. The railway system has been carting the bulk of the country's export products such as cocoa, timber and minerals from the interior to the country's two main ports in Tema and Takoradi. Over the years the tonnage of freight carried by the railways has been declining. In 1977 the freight carried was reduced by 11 per cent from 1 million ton/km to 0.89 million tonne/km. The decline in tonnage of freight carried by the railway network is mainly due to inadequate locomotive facilities and spares.

Ghana: Table 5. Selected transport indicators, 1975-1978

	1975	1976	1977	1978
<u>Ports</u>				
Freight loaded (thousands of tons)	2 831.2	3 060.2	3 826.1	...
Freight unloaded (thousands of tons)	2 293.9	2 087.7	1 970.4	...
<u>Railways</u>				
Freight (in million ton/km) <u>a/</u>	1.1	1.0	0.89	...
<u>Roads</u>				
Commercial vehicles in use (thousands)	29.4	23.9	30.2	33.3
<u>Airports</u>				
Passengers handled (thousands)	315.7	311.3	474.9	...

Source: Ministry of Transport and Communications, Accra.

a/ Figures cover financial year ended 30 June.

During 1977, freight handled by the country's two main ports increased by 13 per cent from 5,147,900 in 1976 to 5,796,500 tons. Freight handled by the country's ports have been increasing over the years, but in the face of inadequate cargo handling equipment, as well as storage facilities, congestion has been a common feature especially at Tema where ships at times have had to wait for over two weeks to unload.

Travel by air has become increasingly popular. This is indicated by the large increase in the number of passengers handled by the country's airports each year. In 1977 the number of passengers who used the airports for both international and domestic flights rose remarkably by 52 per cent from 311,300 in 1976 to 474,900.

(f) Tourism. In Ghana the tourist industry has potential but it is yet to be fully developed. The State Tourist Corporation and the Ghana Tourist Board are responsible for the promotion and development of tourism in the country.

Between 1976 and 1977 the number of tourists visiting the country rose by 7 per cent but in 1978, the figure dropped sharply by 22 per cent from 58,990 to 46,300.

On the whole, the development of the country's tourist industry has been hampered by the inadequate hotel and catering facilities. For example, since 1966 no new hotel has been built by the State Hotels Corporation which operates all the major hotels in the country.

#### 4. Expenditure and GDP

A breakdown of the country's GDP by expenditure indicates that the amount of available resources devoted to investment has been steadily declining. The very large increases in total expenditure at current prices in the face of stagnant or falling GDP at constant prices shows how extensive has been the level of inflation in Ghana.

Ghana: Table 6. Expenditure and GDP, 1975-1977

At current prices	1975 a/	1976 a/	1977 a/
Private consumption	4 293	7 800)	15 813
Public consumption	738	907)	
Gross fixed capital formation	726	792	900
Change in stocks	...	...	...
Export less imports of goods and services	14	-127	-236
Total GDP at market prices	5 771	9 372	16 477

Source: Central Bureau of Statistics, Accra.

a/ Preliminary estimates.

In 1975 the proportion of the country's resources devoted to investment was 13 per cent but in the following year the ratio fell sharply to 9 per cent and in 1977 it dropped further to an all-time low of 6 per cent, which is barely sufficient to maintain the country's capital assets and would certainly not be adequate for creating growth in the future.

Total consumption expenditure as a proportion of GDP increased from 87 per cent in 1975 to 96 per cent in 1977. This large increase in consumption is a reflection of the rapid increases in prices of consumer goods, especially local food items, which occurred over the period. Real incomes have probably fallen and one result of such a movement is to reduce the surpluses available for savings. Based on the increasing proportion of GDP taken by consumption, the savings ratio was 13 per cent in 1975 but fell to only 4 per cent in 1977. Private consumption expenditures increased from 74 per cent of GDP in 1975 to 83 per cent in 1976. At the same time public consumption expenditure as a proportion of GDP, declined from 13 per cent in 1975 to 10 per cent in 1976.

#### 5. External trade and balance of payments

Provisional figures on Ghana's external trade for 1978 indicate that merchandise exports totalled \$2,634.9 million. During the same period, however, imports stood at \$2,150.1 million. There was thus a substantial visible trade balance \$480.8 million recorded for 1977. Table 7 provides data on the country's external trade and balance of payments for 1975 to 1978 but with figures converted to the post-1978 devaluation level of \$US 1 = \$2.75. For 1975 to 1977 exports and imports at the then prevailing rates of exchange were as follows:

(millions of cedis)	1975	1976	1977
Exports f.o.b.	928.26	948.70	1 105.80
Imports c.i.f.	909.30	969.00	1 175.90
Balance	18.96	-20.30	-70.10

Cocoa is by far the most important export and in 1977 accounted for 72.1 per cent of export earnings.

Ghana: Table 7. External trade and balance of payments, 1975-1978  
(millions of cedis) a/

	1975	1976	1977	1978 b/
<u>External trade c/</u>				
Exports f.o.b.	2 202.6	2 142.4	2 446.3	2 634.9
Imports f.o.b.	1 788.9	1 898.2	2 365.5	2 150.1
Balance	413.7	244.2	80.8	484.8
<u>Balance of payments</u>				
Goods and services (net)	17.5	-167.9	-380.2	-123.3
Private transfers (net)	66.7	-11.7	-16.7	-14.2
Government transfers (net)	55.7	85.4	177.6	164.0
Capital (net)	159.0	40.2	222.6	530.4
Reserves and related items	-239.6	233.6	-40.7	-218.2
Errors and omissions	-59.3	-179.6	37.4	-338.7

Source: Bank of Ghana.

a/ In 1978 post devaluation cedis (\$1 = \$2.75).

b/ Provisional.

c/ Balance-of-payments presentation.

In 1978, in spite of the good performance of the country's exports, the country's balance-of-payments position continued to be weak and payment arrears increased by £350 million. The deficit once again occurred mainly as a result of a large deficit on invisibles account arising from increased payments in respect of freight, merchandise, insurance and transport.

The deficit on the current account was wholly financed by transactions in the non-monetary sector of the capital account. In the capital account the most significant development was the increase in net inflow of official long-term loans following the increased disbursement of official long-term loans in connexion with work on the Kpong hydro-electric project.

#### 6. Development aid and external debt

In 1978 new loan commitments by donor countries increased by US\$ 96 million raising the total to US\$ 955 million. During the year, the World Bank group continued to be the largest aid donor to Ghana and in 1978 it accounted for 31 per cent of all total aid commitments. In 1978 disbursements of official aid increased by US\$ 103.6 million to reach a total of US\$ 567.1 million.

Ghana's external indebtedness includes short-, medium- and long-term debt. The short-term indebtedness is in respect of obligations which were scheduled originally to be repaid in less than a year; the medium-term indebtedness is mostly in respect of suppliers' credits with an original maturity of one to 12 years; and the long-term indebtedness is in respect of obligations originally maturing over 12 years. In 1978 Ghana's external debt stood at US\$ 1,195.1 million giving an increase of 25 per cent over the previous year's figure of US\$ 955.9 million.

A breakdown of the total external debt at the end of 1978 indicated that short-term debts amounted to US\$ 376 million and medium-term debts to US\$ 324.5 million while long-term debts were US\$ 494.6 million.

#### 7. Government revenue and expenditure

The Government's budgetary situation has been characterized by sluggish growth in revenues and a rapid expansion in expenditures. A marked feature of budgetary performance has been the wide divergence between original budget proposals for both revenue and expenditure and their actual outcome. In 1977/78 for example revenue was originally projected at £1.86 billion, while the actual outcome was £1,365 million. At the same time, total expenditure was budgeted at £2.36 billion but the actual outcome was £3.463 billion. The level of borrowing from the domestic banking system increased rapidly in the financial years to 1977/78 with the total for that year £1,915.9 million or 140 per cent of actual current revenue. There was a slight reduction in internal borrowing in 1978/79 but the total was still high at £1,864.8 million. Deficit financing has helped to fuel the high level of inflation in Ghana.

The large increase in current expenditure in 1977/78 is attributable to the general salary increases of between 40 and 50 per cent granted to public servants in July 1977 and the award of another 20 per cent increase in the form of housing allowance in July 1978. Other factors which accounted for the large expenditure outlays were the national referendum held in March 1978 and the establishment of a National Reconstruction Corps.

Current revenue has been rising rapidly but in real terms, i.e. after allowing for inflation, the growth has not kept pace with the increase in GDP at current prices. One result of accelerating inflation has been increased black-market activities which are not conducive to the generation of tax revenue.



Ghana: Table 8. Government revenue and expenditure, 1975/76-1978/79  
(millions of cedis)

	1975/76	1976/77	1977/78	1978/79 a/
Current revenue	814.9	1 074.6	1 365.0	2 525.4
Current expenditure	1 015.9	1 308.0	2 800.0	4 390.2
Capital receipts	-	-	-	-
Capital expenditure	422.7	751.5	663.0	795.8
Balance	-623.7	-984.9	-2 098.0	1 864.8
Financed by internal borrowing	797.3	944.2	1 915.9	1 864.8
Financed by external borrowing	1.8	12.7	...	...

Source: Bank of Ghana.

a/ Provisional.

The 1978/79 budget introduced in September 1978 projected revenues at  $\text{¢}3,206.4$  million but provisional figures show an out-turn of  $\text{¢}2,525.4$  million, indicating a short fall of  $\text{¢}681$  million.

On the expenditure side, the provisional out-turn for 1978/79 of  $\text{¢}4,390.2$  million far exceeded the original budget estimate of  $\text{¢}3,987.21$  million. For 1978/79 the budget deficit is thus provisionally estimated at  $\text{¢}1,864$  million compared with the original budget estimate of  $\text{¢}780.7$  million. As in previous years, the central bank financed the bulk of the provisional deficit of  $\text{¢}1,864.8$  million by contributing  $\text{¢}1,126.2$  million or 60 per cent.

#### 8. Money and banking

The period 1975 to 1978 was marked by rapid increases in the level of the money supply. The fastest rate of increase was however, recorded in 1978 when money proper increased by 72 per cent to  $\text{¢}4,108.8$  million (see table 9). This may be compared with increases of 43 per cent and 67 per cent recorded in 1976 and 1977 respectively. The rapid expansion in money supply in 1978 was to a large extent due to a large increase in central bank credit to the Government for deficit financing

Ghana: Table 9. Monetary survey, 1975-1979 (millions of cedis) a/

	End 1975	End 1976	End 1977	End 1978	July 1979
Net foreign assets	146.6	33.3	59.4	284.9	284.7
Domestic credit					
Net claims on Government	924.5	1 573.8	2 779.7	4 527.8	4 254.6
Claims on official entities	295.3	393.1	422.8	1 112.6	1 230.3
Claims on private sector a/	377.8	462.4	645.5	818.3	842.0
Money	999.5	1 425.8	2 384.5	4 108.8	4 078.2
Quasi-money	377.5	474.0	651.2	1 005.0	1 141.8
Special deposits	149.7	151.1	261.5	491.7	564.4
Other items (net)	217.4	411.6	610.3	1 137.8	827.3

Source: IMF, International Financial Statistics, vol. XXXII, No. 11, November 1979.

a/ And other financial institutions.

purposes. The dominance of the Government's operations on the money supply is evident by the fact that net claims on the Government accounted for 70 per cent of the net domestic assets in 1978.

Credit to the private sector and public institutions also exerted expansionary influences on the money supply. In 1978 claims on official entities and the private sector increased by 163 per cent and 27 per cent respectively.

In the first seven months of 1979 net claims on the Government were reduced by 6 per cent and domestic credit to other sectors rose by 7.3 per cent. Total domestic credit fell by 2 per cent and there was a rise of only 2.1 per cent in the money supply including quasi-money. These figures suggest that proper anti-inflationary measures are being taken to restore the long overdue equilibrium in the Ghanaian economy....

#### 9. Wages and prices

Official published data on wage and salary levels in Ghana are not readily available; however, changes in the nominal minimum wage of the public sector give some indications of wage trends in the country.

In July 1977 the Government doubled the minimum wage in the public sector from ₵2 to ₵4 a day. The immediate result was a general upward shift in the wage structure in both the public and the private sectors of the economy.

In March the following year, the Government granted a 20 per cent increase in salaries in the form of a housing allowance to all public servants, backdated to January. In addition taxes levied on bonuses, overtime payments, etc. in the public service were abolished. Finally, with the introduction of the 1978/79 budget, a 5 per cent salary increase was granted to certain categories of public servants.

In spite of these increases in nominal wages, the real purchasing power of employees has fallen as a result of rapidly rising prices. The fall in the purchasing power of employees has contributed to an increase in migration of skilled and professional people including doctors, teachers, engineers, artisans etc., to seek employment in neighbouring countries mainly the Ivory Coast, Nigeria and Liberia.

During the period under review, consumer prices went up sharply. The national consumer price index (1977 = 100) rose by an average of 73 per cent during 1978. At the same time wholesale prices (up to September) rose by 51 per cent. The high consumer and wholesale price rises reflected the severe shortages of goods and services arising from low domestic production coupled with the existence of excess liquidity in the economy. Consumer prices at June 1979 were virtually the same as at March 1979 and this may reflect the start of the move towards more stable prices in Ghana.

#### 10. Employment and unemployment

Current data on employment and unemployment in Ghana are limited and unreliable. The most recent data on employment and unemployment are based on the 1970 population census. The 1970 population census estimated the country's population at 8.6 million. The labour force defined as all persons (school population excluded) between the ages of 15 and 64 seeking work or currently employed was estimated at 3.3 million. Out of this number 3.1 million people were employed and 0.2 million were unemployed. The agricultural sector employed about 60 per cent or 2 million of the economically active labour force, while 330,000 workers were employed in industry and 990,000 workers in the tertiary sector.

An indication of the extent of current unemployment in the country can be obtained from the data on registered unemployed compiled by the Ministry of Labour. The data which give the number of persons registered as unemployed at the end of each month in the 57 employment centres throughout the country tend to underestimate the actual position as there is no incentive like unemployment benefits to encourage people to register.

During 1977 the number of people registering as unemployed averaged 32,781 monthly but in 1978 the number was reduced slightly to an average of 31,940.

#### 11. Other social sectors

(a) Education. In Ghana a great deal of emphasis has been placed on education judging from the expenditure on education which accounts for about 20 per cent of total government expenditures. Expansion in educational facilities has been accompanied by increases in enrolments at all levels of the educational system (see table 10).

Ghana: Table 10. Social indicators, 1975-1978

	1975	1976	1977	1978
Population (thousands) a/	9 630.9	9 868.2	10 105.0	10 347.6
<u>Education b/</u>				
Primary enrolment (thousands)	1 157.3	1 213.3	1 246.5	...
Secondary enrolment (thousands)	81.2	87.3	94.9	...
Higher enrolment (thousands)	7.1	7.8	8.1	...
<u>Health</u>				
Doctors (thousands)	0.94	1.0	1.1	1.3
Registered nurses (thousands)	...	12.4	12.5	18.2
Hospital beds and cots (thousands)	12.9	15.8	16.1	...
Clinics, etc., in rural areas (thousands)	1.05	1.06	1.06	1.06

Source: Ghana, 1970 population Census; Ministry of Education, Accra; Ministry of Health, Accra.

a/ Figures from 1975 to 1978 are estimates using a 2.4 per cent growth rate.

b/ Figures are for academic years beginning 1 September.

In 1977/78 enrolment in primary, secondary and higher level institutions increased by 3 per cent, 9 per cent and 4 per cent respectively. Despite the increase in the primary school enrolment during this period there was a slight fall in the primary school enrolment ratio from 92.7 per cent in 1976/77 to 92.4 per cent in 1977/78.

In general enrolment at all levels has been hampered by the limited number of places, poor and inadequate school facilities and inequalities in the regional distribution of available facilities.

(b) Health and nutrition. The number of doctors and nurses rose remarkably by 38 per cent and 219 per cent respectively between 1975 and 1978. But in spite of these large increases health services in the rural areas of the country, where the majority of the population live, are still inadequate. This is indicated by the limited number of clinics and health posts available in the rural areas. The figures given in table 10 indicate that there was no appreciable increase in such health posts between 1975 and 1978. Over all, the number of hospital beds and cots in Ghana was 16,100 in 1977 giving a bed/population ratio of 1.59 per 1000.

The health services have suffered in the recent period from an acute shortage of drugs. This situation has arisen as a result of the difficulties encountered by the health authorities in securing the necessary import licences.

#### B. MAJOR PROBLEMS

The major problems facing the Ghanaian economy during the period under review were stagnation and inflation. In 1978 agricultural activity was still depressed as the adverse effects of over two years of bad weather persisted. Domestic production of basic food items such as rice, maize, plantains, yams, etc., was far below the pre-1975 level. To supplement local food supplies, large quantities of cereals, mainly rice and maize, were imported during the year, making the difficult foreign exchange position even worse.

The decline in production was not confined to the agricultural sector alone. Industrial production during the period was severely hampered by shortages of imported raw materials and spare parts.

In the face of these supply bottlenecks, there was an upward trend in prices. The consumer price index (1977 = 100) rose by 73 per cent in 1978 alone. The rising price trend can be seen against the background of rapid expansion in the level of the money supply which also increased by 72 per cent in 1978.

The increase in the level of the money supply during the year was largely a reflection of the increased government borrowing from the central bank to finance large budget deficits.

In the external sector of the economy, there was the problem of weakness in the country's balance-of-payments position, stemming mainly from the poor performance of the country's exports, especially cocoa whose output declined by 16 per cent in 1977/78.

#### C. INTERNAL DEVELOPMENT POLICIES

During the period under review a number of policy measures were introduced to help to arrest the deteriorating economic situation.

First, in August 1978 the country's currency, the cedi, was devalued by 58 per cent in terms of United States dollar and the new exchange rate was fixed at  $\text{¢1} = \text{US } 0.36$ . The devaluation was carried out to help to reduce the cost-price distortions in the economy which had been created by the maintenance of an overvalued exchange rate over a period of five years. The devaluation was expected to improve the liquidity position of a number of export-oriented industries, particularly in the agricultural and mining sectors, and thereby provide an incentive for increased investment and production. In support of the devaluation, the special unnumbered licence scheme (SUL) for imports, which allowed importers to bring in selected items like transport equipment, spare parts and food items outside the official import programme, was abolished. According to the Government, the scheme had encouraged increased demand for foreign currencies on the unofficial market for foreign currencies instead of attracting additional foreign exchange from private sources held outside the country.

Within the framework of a stabilization programme, an austerity budget was introduced in September 1978. The over-all strategy of the budget was to reduce substantially the expansionary impact of the Government's budgetary operations on the economy. Towards this end, the size of the budget deficit was estimated at about  $\text{¢800 million}$  compared with a deficit of  $\text{¢2.1 billion}$  recorded for the previous fiscal year.

The 1978/79 budget gave cocoa farmers a substantial increase in the producer price of cocoa from  $\text{¢}1,333$  per ton to  $\text{¢}2,600$  per ton. This increase in the producer price was expected to provide an incentive to farmers to expand production and also to reduce the high incidence of smuggling of cocoa across the borders. There was a further rise in July 1979 to  $\text{¢}4,000$  per ton.

In addition to the fiscal policy measures, restrictive monetary policy measures were also introduced in September 1978. The objective was to reduce the rate of growth in money supply and to influence the direction of credit from non-productive sectors of the economy. In pursuance of this, the central bank announced increases in cash reserve ratios of banks from 43 per cent to 48 per cent and at the same time increased the rediscount rate from 8 per cent to 13.5 per cent.

Towards the end of 1978, Ghana obtained an IMF stand-by loan of SDR 53 million to cover the period of the stabilization programme.

In March 1979, a currency reform programme was introduced aimed at reducing the excess liquidity in the economy. The reform entailed the exchange of old cedi notes for new ones at a discount of 30 per cent for old notes up to  $\text{¢}5,000$  and of 50 per cent for amounts exceeding  $\text{¢}5,000$ . Available data indicate that the authorities managed to reduce currency outside the banking system by  $\text{¢}625$  million or 33 per cent.

During the period under review, it can be seen that the main thrust of the Government's economic policy was to arrest the inflationary pressures in the economy by reducing the level of excess liquidity.

#### D. PROSPECTS FOR 1979 AND 1980

The general outlook for the Ghanaian economy is that the **financial** year 1979/80 will continue to be difficult. The immediate prospects for the economy appear to include a slight improvement in domestic production; high prices for imported goods, especially oil; stagnation in prices of major commodities in world markets because of recession in the economies of the industrial countries; and increased external indebtedness.

In 1979/80 the rate of inflation is expected to fall substantially as a result of the stabilization policy measures introduced in 1978. But the extent to which inflation can be brought under control will depend on the size and mode of financing of the continuing budget deficit.

Domestic agricultural production, which has been depressed in earlier years because of erratic weather conditions, is expected to pick up with the improved rainfall pattern experienced in late 1978 and early 1979. Agricultural production, including cocoa, is not expected to show much advance in view of the fact that there are continuing bottlenecks such as a general lack of inputs of insecticides, fertilizers and agricultural machinery. The performance of the industrial sector which has been operating far below capacity for a number of years should improve following the removal of constraints and better availability of imported raw materials and vital spare parts. The likelihood of the industrial sector's increasing its output by any significant amount in 1979/80 will depend on the increased availability of foreign exchange.

The fortunes of the country's balance of payments are tied up with the prospects of reasonable returns from cocoa, gold and diamond exports. For cocoa 1979/80 seems likely to be a year of low world prices but for gold and diamonds prices are very attractive. However, at a time when export prices of cocoa and such products as timber and manganese seem likely to stagnate or even decrease, import prices of manufactured goods and especially oil are expected to continue to increase. This will mean that the balance of payments will continue to be difficult.

From the above it may be seen that prospects for the Ghanaian economy in 1979/80 are not very bright. However, with the coming into power of a new Government in late September 1979, after seven years of mismanagement, it is expected that the required economic policies will be initiated to cope with the situation and help to restore confidence and lead to future growth in the economy.

## GUINEA-BISSAU

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978-1979

#### 1. Introduction

In 1978, agricultural production, the mainstay of the Guinea-Bissau economy, did not fully recover from the effects of the 1977 widespread drought. The volume of groundnut crop exported in 1978 declined slightly from the previous year's level. At the same time food imports rose sharply as domestic supplies remained much below local requirements. Consequently, the characteristic visible trade deficit which improved in 1977 to 807.6 million pesas, deteriorated again to 1,303.8 million pesas in 1978.

Government was again unable to balance current revenues and expenditure in 1978 and resorted to central bank borrowing to finance the substantial budgetary deficit which thus resulted in continuing inflationary pressures and strains on the balance of payments.

The 1978/79 crop season was quite favourable but external food aid was still requested in large quantities. Substantial material and financial assistance is expected from both bilateral and multilateral agencies. This should bring about a measure of financial stability and lead to an expansion of economic activity.

#### 2. Selected economic sectors

(a) Agriculture, forestry and fishing. Agriculture is the most important sector occupying about 90 per cent of the country's working population. The major commercial crops are groundnuts, coconuts and cashewnuts. As the export figures shown later in table 2 indicate, there has been a substantial recovery in the level of production of these crops in the past few years following the end of the war of liberation during which production fell very much below normal levels.

The groundnut crop is now exported increasingly in the form of oil. Coconuts are exported mainly in husked form but the rapid recovery in the production of this crop has overtaken the growth in processing capacity.

Guinea-Bissau: Table 1. Commercial agricultural production, 1975 to 1978 (tonnes)

	1975	1976	1977	1978
Groundnuts <u>a/</u>	13 350	15 420	25 131	...
Coconuts	4 425	4 950	9 600	11 950
Cashewnuts	-	971	1 150	...
Sawn wood	4 631	3 455	1 320	1 952

Source: Direccao Geral de Estatistica, Guinea-Bissau.

a/ Shelled equivalent.

Rice supplemented by sorghum, beans and maize constitutes the most important food crop. Food production is generally beset by the lack of adequate storage facilities and difficulties in transporting marketable surpluses to the available storage facilities. These problems were compounded in 1976 and 1977 by the occurrence of widespread drought. There were severe food shortages in many parts of the country in 1978 with the over-all food deficit assessed at 49,000 tonnes. To cover this some 40,000 tonnes mainly rice, wheat flour, maize and sugar was received in food aid while the remainder was purchased commercially. The 1978/79 harvest was expected to be better than the previous season but it was reported that food needs totalling 31,500 tonnes would still have to be imported in 1979.

Information on the livestock population is poor. It is known however that there were 166,000 heads of cattle in 1977. The country had been traditionally self-sufficient in meat before the war of liberation. Currently production is noticeably short of requirements particularly in urban areas. Definite efforts are being made to reconstitute the herds through the use of artificial insemination, the setting-up of pig farms and other intensive farming units and the import of high quality stud cattle.

Fish production is expanding rapidly. In 1977 about 2,600 tonnes of fish were exported as against 1,130 tonnes in 1976 and some negligible quantities in earlier years. In 1977 total fish landed at local markets was estimated at 1,911 tonnes compared with 1,615 tonnes in 1976 and 867 tonnes in 1975. The potential for fisheries development is high and there are plans to develop both artisanal and industrial fishing.

(b) Manufacturing. The manufacturing sector is very small and consists mainly of industries processing agricultural produce namely groundnut and coconut shelling, groundnut milling, etc. Beer and soft drinks production has expanded in recent years, beer output reaching 21,680 hl in 1977. A fruit juice plant was inaugurated in 1977 with an annual capacity of 90 to 100 tonnes of cashew, mango, orange and pineapple juices. The output of the local saw mills is estimated at 4,200 cubic metres per annum, part of which is exported.

The development of the industrial sector is hampered by the severe scarcity of skills at all levels. Local capital, physical infrastructure and spare parts are also in short supply.

(c) Electricity. Total electricity production is very small and is provided by thermo-electric power stations with small diesel generators most of which are antiquated and not very reliable.

There are plans to exploit the hydro-electric power potential of the country and to install a new thermo-electric power station at Bissau with a total capacity of 14,000 kW.

(d) Transport services. Available information indicates that port traffic at Bissau has been expanding in recent years. Total goods unloaded at the port reached about 94,500 tonnes in 1978 while some 21,600 tonnes were loaded.

Inland transport depends partly on the rivers and partly on the roads. The present poor condition of this network is said to be one of the most serious stumbling block to the transformation of the country. There are about 3,500 kilometres of road, only 420 of which are asphalted. The existing fleet of commercial vehicles is also well below national



requirements. As regards the waterways, the port infrastructure on rivers is very little developed and there are problems in maintaining boats and other equipment.

International and domestic air transport links are developing slowly with the help of external assistance. There is an acute need for the development of a number of airstrips to enable the small national airline to extend its services to areas where access is difficult.

### 3. External trade and balance of payments

The characteristically large balance-of-trade deficit which improved by 14.4 per cent in 1977 to 807.6 million pesos deteriorated again sharply in 1978 to 1,303.8 million pesos. The increase in the deficit was due partly to the fall in the volume of groundnuts exported following the effects of the drought and partly to the rise in value of imports particularly food imports.

European countries accounted for 82 per cent and 55 per cent of the import and export trade respectively in 1978. Guinea-Bissau has succeeded in diversifying its trading partners significantly. Thus whereas Portugal had previously accounted for about 40 per cent of total annual imports and about 60 per cent of the exports, in 1978 only 21 per cent of total imports were from Portugal and only 18 per cent of the exports went to that country. In 1978 45 per cent of the export trade and 3 per cent of the import trade was with the rest of Africa.

Guinea-Bissau: Table 2. External trade, 1973 to 1978 (millions of pesos)

	1975	1976	1977	1978
Exports	149.9	162.4	427.6	422.6
Imports	964.5	1 106.3	1 235.2	1 726.4
Deficit	814.6	943.9	807.6	1 303.8

Source: Direccao Geral de Estatistica, Guinea-Bissau.

The balance of payments have been in permanent deficit because of the sizable visible trade gap. Net official transfers (grants, loans, etc.) were estimated at \$30 million and \$46.1 million in 1977 and 1978 respectively. These inflows left uncovered deficits of about \$6.3 million in 1977 and \$7.7 million in 1978 which were met mainly by the accumulation of payments arrears and running down external reserves.

### 4. Development aid and external debt

Finance for development projects depends almost entirely on external sources. A significant proportion of the financing of current imports, the balance of payments deficit and the general budget is derived from external sources. At the end of 1977 the total outstanding external debt was about 2,068.2 million pesos. The bulk of this, 82.2 per cent, was long-term credits.

Guinea-Bissau has managed to attract capital and technical assistance from a variety of sources. A number of bilateral and multilateral agencies are currently involved in the various development activities.

#### 5. Government revenue and expenditure

The chronic budget deficit existing since independence was 421.6 million pesos in 1978 substantially lower than in the two previous years. As in previous years borrowing from the central bank financed virtually the whole of the deficit.

Some 62.9 per cent of current expenditure was for personnel emoluments in 1978 compared with 78 per cent in 1977. There have been only small allotments for durable and non-durable goods in the past few years. Capital expenditure for development is financed completely from foreign grants and credits.

Guinea-Bissau: Table 3. Government revenue and expenditure, 1974 to 1979 (millions of pesos)

	1974	1975	1976	1977	1978	Budget estimates 1979
Revenue	463.7	529.1	532.6	576.8	486.2	782.0
Expenditure	583.3	776.1	907.3	1 161.3	907.8	1 319.2
Deficit	119.6	247.0	374.7	584.5	421.6	537.2

Source: Banco de Guiné.

The budget estimates for 1979 provide for a total revenue of 782.0 million pesos which is over 60 per cent higher than the total receipts collected in 1978. The estimated increase is expected to result from increases in and the extension of indirect taxes. For instance higher port dues will be levied, more items will be covered by the sales tax and the stamp tax has been increased and extended. Public enterprises are now expected to remit their surpluses to the treasury thereby providing government with more resources for its budget.

A significant rise is however projected for personnel emoluments in 1979 and a continuation of the current deficit is expected. The data since 1974 show that this deficit increased rapidly up to 1977, fell in 1978 but is again expected to rise in 1979.

#### 6. Money and banking

The money supply has risen rapidly since 1975 averaging an annual rate of increase of 21.1 per cent between 1975 and 1978. Much of the rise in money supply has been due to increases in net credits to government made necessary by the persistent deficit in the government current account budget. Net claims on the Government became positive in 1976 and have more than doubled in each of the years 1977 and 1978. Private sector credit has been constant since 1975 but net foreign assets have fallen progressively and were negative in 1978.

The Banco de Guiné was established in February 1975 and began operations about a year later. It is the sole monetary institution and performs both central and commercial banking functions. The peso was at par with the Portuguese escudo until the latter was devalued by 15 per cent against the US dollar in February 1977.

Guinea-Bissau: Table 4. Monetary survey 1974 to 1978 (millions of pesos)

	End 1974	End 1975	End 1976	End 1977	End 1978
Net foreign assets	405.0	262.2	223.9	164.8	-91.4
Domestic credit					
Net claims on Government	-204.1	-38.7	110.9	369.6	679.8
Claims on private sector	333.2	270.4	312.2	314.8	335.8
Money )	534.1	363.1	387.0	539.7	645.9
Quasi-money )		125.0	237.7	195.1	232.3
Other items (net)	35.9	57.5	56.1	92.8	113.2

Source: Banco de Guiné.

## 7. Wages and prices

The minimum monthly wage is currently 2,400 pesos. In 1974 it was 800 pesos. Only 67 per cent of the work force in the public service earn more than the minimum wage rate.

The consumer price index for Bissau rose by 77 percentage points between 1974 and 1978 which represent an average annual rate of increase of 15.3 per cent over the four-year period.

The price system consists of fixed prices, controlled prices and prices determined on the basis of trading profits. Under this system, prices of essential commodities such as rice, sugar, fish, cooking oil etc., have been kept virtually stable since 1975. A marketing fund which has been in operation since January 1976 has provided the institutional mechanism that ensures the working of the price system. The fund applies a compensatory coefficient to transport costs which has made it possible to equalize prices throughout the country.

## 8. Employment and unemployment

The April 1979 Census estimated the population at 777,214 with 109,486 living in the capital Bissau. Of this total it is estimated that 48 per cent constitutes the active work force. Agriculture accounts for 90 per cent of the working population, industry 0.5 per cent and services 9.5 per cent.

Wage employment is small since the overwhelming majority of the population is engaged in peasant agriculture. There are about 25,000 wage earners, 80 per cent of whom are in the capital, Bissau and 62 per cent are in public service.

Information on unemployment is scanty but its impact is said to be small.

## 9. Other social sectors

(a) Education. During the 1976/77 school year there were 81,671 pupils in primary school and 12,450 at secondary schools. There were small numbers of students enrolled on technical courses. Education is given a high priority in the government budget accounting for 21.4 per cent of total current expenditure in 1977. The current system combines study with productive work.

(b) Health. There are 6 regional hospitals, 8 rural (or sector) hospitals and 73 first-aid posts. About 12 per cent of budgetary expenditure in 1976/77 was earmarked for the health sector; this does not include extra-budgetary expenditure on health infrastructure. Several public health campaigns are underway aimed at alleviating individual and social health problems.

## B. MAJOR PROBLEMS

One of the most difficult economic problems facing the country is, undoubtedly the quest to establish equilibrium in the recurrent budget. The persistent budgetary deficit has led to constant recourse to central bank borrowing which in turn has resulted in inevitable inflationary pressures and strains on the balance of payments.

The persistent regional and local food shortages continue to push the food import bill upwards. For 1979, it is estimated that 20,000 tonnes of rice, 5,000 tonnes of wheat flour, 3,000 tonnes of sugar, 2,500 tonnes of maize, 800 tonnes of edible oils and 200 tonnes of milk will be needed as food imports.

Apart from unfavourable weather conditions, the problem of food supply is directly linked to the difficulties of internal communication links. Surplus food in some areas is often unavailable to areas with food deficits because of a lack of transport facilities. There is an acute need to implement an integrated transport plan which will provide for the development of river landing facilities adequately served by feeder roads to enable the rapid transit of agricultural produce.

Among the country's other major problems, the dearth of all categories of skilled personnel and particularly middle level personnel must feature prominently. Most of the public utilities are not functioning properly because of the lack of qualified personnel.

## C. INTERNAL DEVELOPMENT POLICIES

The main lines of development strategy are being laid down and should soon be embodied in the country's first development plan. Emphasis is clearly on development of the agricultural sector and steps are currently being taken to modernize productive organizations in rural areas with a view to increasing agricultural surpluses and at the same time increase rural incomes. It is hoped that this rural market will be able to provide an outlet for an industrial sector devoted mainly to the production of ordinary consumer goods and capital equipment for agriculture. Eventually it is hoped that a greater link will be created between rural and urban areas.

The implementation of this development strategy implies that for the immediate future a policy of reasonable balance particularly in budgetary operation and in the balance of payment will have to be pursued. The Government recognizes the importance of external aid in the realization of the immediate and long-term objectives and hopes to maintain, if not increase, the current flow of external financial and technical resources with a view to expanding output, export and domestic savings and to achieve larger degrees of self-reliance and self-sustainment than have so far been achieved.

#### D. PROSPECTS FOR 1979 AND 1980

Despite a better crop season in 1978/79 than in 1977/78, as already noted, there were still calls for substantial food aid during the course of 1979. It is hoped that the food supply situation will improve further in 1980.

Guinea-Bissau recently became a member of the World Bank/IMF Group and a number of development assistance programmes and financial stabilization measures for the country will soon be initiated which should augur well for future development.

## IVORY COAST

### A. ECONOMIC AND SOCIAL DEVELOPMENT 1978-1979

#### 1. Introduction

After experiencing a marked slowdown in 1977 when the GDP grew by 4.5 per cent in volume terms against an annual average rate of 7 per cent since 1970, the Ivorian economy again expanded strongly in 1978 with GDP recording a rate of increase of 10 per cent at constant prices. After the adverse climatic conditions in 1977, the weather returned to normal in 1978 and crops were generally good especially the cash crops. Industrial production continued to grow at a fast rate and the level of investment especially public investment was very high. But the investment drive led to imports rising substantially at a time when export earnings were not growing because of the fall in coffee prices, so that trade balance which had recorded an exceptional surplus of 99.6 billion CFA francs in 1977 declined to only CFAF 1.9 billion in 1978. However the balance of payments was positive with a small rise in international reserves. Inflation as measured by the implicit GDP deflator slowed down considerably in 1978 (approximately 12 per cent in 1978 against more than 30 per cent in 1977). Consumer prices increased by 13.1 per cent in Abidjan against 27.2 per cent in 1977.

In 1979 with the reduction in public investments decided by the government to maintain the external balance and reduce inflation, and the recession in the developed market economies with attendant poor demand for Ivory Coast products, growth will probably be more modest ranging between 4 and 5 per cent. This situation is likely to persist until 1981-1982, when international economic conditions should improve and assist the Ivory Coast to restore its previous GDP growth rate.

#### 2. GDP by industrial origin

Comparison between 1975 and 1977 as in table 1 shows few changes in GDP structure. The share of agriculture has fallen from 34.1 per cent to 30.3 per cent this being due in part to the poor weather conditions prevailing in 1977. For other sectors, there is stability for industry excluding construction with its 13.5 per cent share of GDP, while value added by construction rises from 7.1 per cent of GDP in 1975 to 8.2 per cent in 1977.

The substantial increase in the production of GDP arising in market services from 22.2 per cent in 1975 to 28.7 per cent in 1975 stems mainly from trading in coffee and cocoa at higher prices.

Data are not yet complete for 1978. What is known is that output of certain commercial crops grew strongly and there was a substantial advance in output in manufacturing and construction. Output of foodstuffs recovered in 1978 after a fall in 1977 while production of cocoa in particular was very much greater and at a time of good prices although these were lower on average than 1977. Coffee production in contrast was substantially reduced but for bananas, cotton and palm oil there were good increases. Exports of logs were reduced in 1978.

The Ivory Coast: Table 1. GDP by industrial origin 1974 to 1977 (billions of CFA francs)

	1974	1975	1976	1977
<u>At current prices:</u>				
Agriculture, forestry and fishing	188.2	235.8	272.7	358.2
Industry excluding construction	86.3	93.4	119.2	160.0
Construction	33.1	48.9	63.2	97.1
Transport and communications	60.9	68.7	79.5	97.5
Market services	135.9	151.8	175.2	339.0
Non-market services	70.0	86.2	104.4	129.9
GDP at factor cost	574.4	684.8	814.2	1 181.7
GDP at market prices	739.0	834.5	1 117.0	1 582.5

Source: La Côte d'Ivoire en chiffres, 1979-80.

### 3. Selected economic sectors

(a) Agriculture, fishing and forestry. The weather was back to normal in 1978 and agricultural production increased substantially. According to the Ministry of Planning the 1978 crop was one of the best since independence. Food crops recovered and the total increase in value added to GDP at constant prices was probably around 2.4 per cent against a drop of 3 per cent in 1977. The moderation of food price rises in 1978 was a clear proof of the improved supply position. In 1977 food prices had increased by 39.7 per cent while in 1978 the increase was 11 per cent. The hoarding and black marketing of some commodities like rice which had been widespread in 1977 disappeared completely. The food crop is more than enough to cover domestic needs, with tubers, roots and plantains alone amounting to over 4 million tonnes.

For cash crops, cocoa production reached 297,200 tonnes in the 1977/78 season putting Ivory Coast in first place as an African producer before Nigeria and Ghana. Coffee production decreased from 291,100 tonnes to 195,000 because of drought during the flowering season. Cotton production was 114,900 tonnes in 1978/79 having risen to 102,900 tonnes in 1977/78. The growth in cotton production has been particularly marked since 1975. Fruit production -- bananas and pineapples in particular has suffered from a number of problems both climatic and organizational, but output recovered in 1978 and the marketings of bananas grew to 171,800 tonnes. The same tendency is observed for pineapple exports.

Forestry has been affected by the depletion of some kinds of high value trees and the poor demand on European markets at a time when South-east Asian competition has been very strong. Exports of logs dropped by a fifth from 2,533,200 tonnes in 1977 to 2,003,100 tonnes in 1978. The prospects for wood exports are less favourable and the Government is encouraging domestic processing and is starting to replenish forests through replanting but with different wood species.

The Ivory Coast: Table 2. Agricultural production, 1975 to 1978 (thousands of tonnes)

	1975	1976	1977	1978
<u>Food crops</u>				
Cereals excluding rice	835.5	795	807.3	845.3
Rice (paddy)	496	460	477	506
Roots and tubers	3 374	3 279	3 130	3 135
Plantains	1 168	1 118	1 058	1 123
Groundnuts	48.8	49.0	48.8	49.8
<u>Cash crops</u>				
Bananas <u>a/</u>	168.3	123.2	139.2	171.8
Cocoa <u>b/</u>	241.1	227.4	228.3	297.2
Coffee <u>b/</u>	270.4	308.1	291.1	195.0
Cotton <u>c/</u>	65.0	75.4	102.9	114.9
Rubber	16.5	16.8	18.2	18.7
Palm oil	146.4	143.6	126.2	138.5
Palm nuts	30.3	29.5	26.4	30.6
Logs export	...	2 492.8	2 533.2	2 003.1

Source: As table 1.

a/ Marketed for export.

b/ Season beginning in the 1974-75 season.

c/ Season beginning in the 1975-76 season.

(b) Energy. Ivory Coast has been producing only half of its energy requirements from domestic sources and firewood is used extensively in domestic use. Offshore petroleum deposits are being developed and it is expected that 400,000 to 500,000 tonnes will be produced annually in the near future, but for the time being crude petroleum imports are over 1.6 million tonnes per year. In 1978 oil consumption rose by 3.8 per cent, reaching 1.66 million tonnes against 1.60 million tonnes in 1977, but electricity production rose by 14.1 per cent. The proportion of the population supplied with electricity is rising rapidly and reached 46.6 per cent in 1978 against 34.9 per cent in 1970.

(c) Manufacturing. Industrial production continued to grow in 1978 but at a lower rate than in 1976 and 1977. The index of industrial activity increased by 15.2 per cent in 1978 against 16.3 per cent in 1977 and 24.9 per cent in 1976. Despite these favourable growth rates the sector is suffering to some extent from strong foreign competition in attempting to enter export markets. Ivorian products could not face up the competition from Asian textiles, and in the Ivory Coast itself the rapid rise in wage costs is making industry less competitive. For textiles, the smuggling of Ghanaian textiles which benefit from the depreciation of the cedi relative to the CFA francs has been an added problem.



The Ivory Coast: Table 3. Indicators of industrial output, 1975 to 1978

	Unit	1975	1976	1977	1978
Electricity production (million kWh)		961.9	1 114.5	1 242.9	1 417.8
Index of industrial activity <u>a/</u>	(1972 = 100)	148.8	185.9	216.3	249.2
Number of employees in industry <u>b/</u>	(number)	52 762	57 315	63 005 <u>c/</u>	64 007 <u>c/</u>
Turnover <u>b/</u>	(billion CFA)	302.8	350.0	458.9 <u>c/</u>	549.9 <u>c/</u>
Exports <u>b/</u>	(billion CFA)	217.0	250.0	292.6 <u>c/</u>	329.7 <u>c/</u>

Source: National data from Ivory Coast.

a/ Excluding construction and electricity.

b/ Energy included.

c/ Fiscal years ending in October.

(d) Construction. Because of the large public sector investment programme, the activity of the construction sector has considerably increased. In 1976/77 turnover at current prices grew by 64 per cent relative to 1975/76. This growth has continued in 1978, but some slow-down is predicted in 1979 because of the reduction of the public investment programme, the Government capital budget declining by 7 per cent.

(e) Transport. The tonnage of goods handled at the port of Abidjan has risen by 5.2 per cent judging from results on the first 11 months of 1978. This is higher than in 1977 when growth was only 1.8 per cent. However these port statistics show a 15 per cent growth in imports but a fall in exports because of reduced exports of timber. Air traffic has continued to grow. Consumption of diesel oil rose by 6.9 per cent in 1978 reflecting to some extent increased freight activity on road transport but traffic on the railway with Upper Volta and Niger, dropped in the first 11 months of 1978 indicating a decrease in traffic of 3.5 per cent of the year as a whole.

The Ivory Coast: Table 4. Selected transport indicators, 1975 to 1978

	1975	1976	1977	1978 <sup>a/</sup>
<u>Port of Abidjan</u>				
Freight unloaded	3 422.2	4 241.9	4 728.1	5 445.0
Freight loaded	2 618.7	3 477.6	3 134.3	2 825.0
Total	6 040.9	7 719.5	7 862.4	8 270.0
<u>Abidjan airport</u>				
Passengers handled (thousand)	488.7	546.7	660.1	746.5
Freight (tonnes)	14 655	16 798	20 118	23 400
Diesel oil consumption (tonnes)	309 452	338 564	367 831	393 280
<u>Railways</u>				
Freight (thousand tonnes)	654.7	757.0	756.7	730.0

Source: Côte d'Ivoire, Bulletin Mensuel de Statistiques, mars 1979.

<sup>a/</sup> Estimates based on 11 months.

#### 4. Expenditure and the GDP

There are as yet no data for 1978. In 1977, GDP increased by 41.9 per cent at current prices but domestic expenditure, grew by 39.6 per cent or less than GDP because the net external surplus rose from CFAF 47.4 billion to CFAF 92.0 billion. This situation was due to

The Ivory Coast: Table 5. Expenditure and the GDP, 1975 to 1977 (billions of CFA francs)

	1975	1976	1977
Private consumption	517.4	639.7	857.7
Public consumption	140.6	177.2	208.6
Gross fixed capital formation	183.9	247.2	394.4
Change in stocks	3.4	8.9	37.7
Exports <u>less</u> imports of goods and services	-10.8	47.4	92.0
GDP at current market prices	834.5	1 120.4	1 590.4

Source: IMF, International Financial Statistics, vol. XXXII, No. 10, October 1979 (figures adjusted to achieve balance).

the high prices fetched by coffee and cocoa in 1977, and the consequent high growth of exports. Consumption reached 67.0 per cent of GDP, gross fixed capital formation 24.8 per cent, and net exports 5.8 per cent. Increases in stocks accounted for the balance of 2.4 per cent. In 1978 exports and imports were approximately in balance so a higher proportion of resources were available out of the GDP for higher investment and consumption in the domestic economy.

#### 5. External trade and the balance of payments

There was a slight drop of exports in 1978 mainly because of the fall of coffee prices and the reduced logs exports, but imports grew by 21.6 per cent. The trade surplus which was as high as CFAF 99.64 billion in 1977 dropped to only CFAF 1.88 billion in 1978. The growth of imports was the result of the high level of investments in the country; but was also related to the high coffee incomes in 1977.

The reduced trade surplus led to a deterioration of the balance of payments in 1978 and the over-all surplus declined from CFAF 27.6 billion in 1977 to some CFAF 9 billion in 1978. There was a substantial deficit for goods and services estimated at some CFAF 90 billion and there was a higher figure of deficit for private transfers of CFAF 100 billion. However,

The Ivory Coast: Table 6. External trade and the balance of payments, 1975 to 1978

	1975	1976	1977	1978
<u>External trade</u>				
Exports	254.57	392.50	529.21	524.38
Imports	241.39	311.61	429.57	522.50
Balance	13.18	80.89	99.64	1.88
<u>Balance of payments</u>				
Goods and services (net)	-51.97	2.39	-20.29	...
Private transfers (net)	-38.04	-66.53	-88.00	...
Government transfers (net)	7.74	4.66	8.01	...
Capital	58.40	62.59	123.63 a/	...
Reserves and related items	-6.79	6.17	-27.56	...
Errors and omissions	30.67	-9.25	4.22	...

Source: IMF, International Financial Statistics, vol. XXXII, No. 10, October 1979.

a/ Balancing item.

Government transfer receipts were positive at around CFAF 10 billion and the capital inflow was in the region of CFAF 190 billion leading to a comparatively small augmentation of foreign reserves.

## 6. Development aid and external debt

The resource flow to the Ivory Coast is mainly in the form of loans instead of grants. International banking is playing a large part in the provision of the loans obtained to develop the economy. The proportion of loans in the resource inflow was 93.1 per cent in 1977 against 82.5 per cent in 1974.

The external debt has increased substantially and reached CFAF 927.3 billion in 1977 against CFAF 326.8 billion in 1975. Debt service was CFAF 71.4 billion in 1977 equal to 10.7 per cent of earnings from goods and services and the proportion would have been higher in 1978 and 1979. The rapid rise in the external debt is creating some problems, because the returns from the investments made with the money borrowed are not flowing as fast as expected.

## 7. Government revenue and expenditure

Government expenditure has been growing very rapidly since 1976. From 1976 to 1978 ordinary expenditures grew by an average of 26 per cent per year, while capital expenditure increased fourfold. For 1979, the Government has reduced the growth rate of expenditure very drastically and this has involved lower capital expenditure and only a moderate rise in ordinary expenditure. No major new taxes have been introduced and the budget is in equilibrium with an inflow of external resources of CFAF 83.6 billion.

The Government's net deposits in the banking system rose from CFAF 21.55 billion at the end of 1976 to CFAF 76.35 billion in 1977 and CFAF 107.50 billion in 1978. Government budgetary operations in this period have thus had the effect of reducing inflationary pressures in the economy.

The Ivory Coast: Table 7. Government revenue and expenditure, 1975 to 1979 (billions of CFA francs)

	1975	1976	1977	1978	1979
Revenue	154.8	174.0	394.9	428.2	430.3
Ordinary expenditure	126.8	153.7	198.3	253.6	277.4
Investment expenditure	54.0	60.1	245.1	257.2	239.5

Source: Bulletin de l'Afrique Noire, No. 274, juillet 1979.

## 8. Money and credit

There was a marked reduction in the rate of growth of money supply in 1978, to some extent the result of a deliberate policy on the part of monetary authorities. There was a rise in net foreign assets of CFAF 8.41 billion and an increase in credit to the private sector of CFAF 90.80 billion or 15 per cent but these were offset to some extent by the rise in Government's net deposits in the banking system of CFAF 31.12 billion. In the event money proper rose by 18.6 per cent in the year compared to a rise of 47.1 per cent in 1977 and money including quasi-money increased by 11.0 per cent as against 49.8 per cent.

In the first four months of 1979 money rose by 5.3 per cent and with quasi-money by 7.9 per cent. Net foreign assets rose in this period, credit to the private sector increased and Government net deposits in the banking system fell.

The Ivory Coast: Table 8. Monetary survey, 1975 to 1979 (billions of CFA francs)

	End 1975	End 1976	End 1977	End 1978	April 1979
Net foreign assets	2.29	-2.60	35.83	44.24	56.23
Domestic credit					
Net claims on Government	-25.29	-21.55	-76.38	-107.50	-89.10
Claims on private sector	292.52	391.89	605.51	696.31	730.56
Money	179.86	260.11	382.70	415.55	437.59
Quasi-money	64.72	89.65	141.40	166.05	190.06
Other items (net)	24.99	17.99	40.85	51.45	70.02

Source: IMF, International Financial Statistics, vol. XXXII, No. 10, October, 1979.

#### 9. Wages and salaries

The minimum wage was increased on January 1, 1978 to CFAF 143.75 per hour against CFAF 115.00 in 1977 or by 25 per cent. A new increase was granted on January 1, 1979 to CFAF 158.125. The increase in 1979 of only 10 per cent reflected the desire of the authorities to contain the rise of labour costs. Judging from data available for industry average wages grew rapidly in 1978. While the number of employees in industry increased by 1.6 per cent the wage bill rose by 25.4 per cent which means a rise of 23.8 per cent in the average wage in that sector.

Despite the increases in wages inflation began to abate in 1978 especially for African families. The consumer price index for African families in Abidjan increased by 13.0 per cent in 1978 against a rise of 27.4 per cent in 1977. However, for foreign families inflation accelerated to 19.9 per cent against 13 per cent in 1977. Lower price rises for food in 1978 resulted from better food crops and better supplies. In the first half of 1979 rate of inflation appears to have accelerated once again. The consumer price index for African families was 13.7 per cent higher in June 1979 than at December 1978.

#### 10. Employment and unemployment

With its high rate of economic growth, Ivory Coast has not experienced a serious unemployment problem, the reverse being true; the country having to bring in workers from neighbouring Sahel countries. Since 1975, the increase in employment has been rapid and in the industrial sector employed manpower rose at the rate of 17 per cent per year up to 1977. In 1978 there seems to have been a slowdown in employment creation. Another field where employment has been increasing rapidly is in Government administration. However, the planned drop in the public investment programme will have a direct effect on employment in the construction industry where it increased impressively in the recent past growing from 28,859 in 1975 to 48,901 in 1977 or by 69.4 per cent.

# 11. Other social sectors

(a) Education. An important effort is being made to develop education and train qualified personnel. This is shown by the very rapid rise of the education budget which has practically doubled between 1975 and 1979. In 1979 the growth of the budget is slower than in 1977 and 1978 but higher than the average of other sectors. The effort is reflected in the rapid rise in enrolments at the different levels of education and particularly at the primary level where the enrolment ratio is now around 75 per cent. A remarkable programme of education through television is now reaching most of the primary schools.

The Ivory Coast: Table 9. Social indicators, 1975 to 1979

	1975	1976	1977	1978	1979
<u>Enrolments</u>					
Primary schools	641 369	672 707	735 511	815 277	892 135
Secondary schools	95 177	102 387	112 141	125 749	143 221
Technical schools	...	25 947	31 484	35 553	...
University	5 366	6 075	7 124	8 341	9 651
<u>Health</u>					
Doctors				429	
Nurses etc.				4 173	
Hospital beds	9 289			9 983	

Source: La Côte d'Ivoire en chiffres, 1979-80.

(b) Health. As with education so the rapid growth of the health budget is an indication of the effort being made by the Government in this field. In 1978 there were 18,182 people per doctor, and 781 persons per hospital bed. These ratios compared favourably with many African countries.

## B MAJOR PROBLEMS

In 1978 the fall in coffee prices and timber exports led to stagnant earnings from exports. As imports rose rapidly stimulated by the coffee boom of 1977 and higher investments, the basic balance of payments position could only be contained by a high capital inflow. Inflation is still a problem and the external debt is leading to a high proportion of export earnings having to be earmarked for debt servicing. The attempts to diversify manufacturing output in the direction of exports has run into difficulties because of keen competition in the market from Asia suppliers.

### C. INTERNAL DEVELOPMENT POLICIES

To counteract inflationary pressures and to avoid a deficit on the external account, the Government has taken steps to cool the overheated economy mainly through a smaller investment effort. The investment budget was actually reduced in 1979 and the three-year public investment programme for 1979-1981 shows a continuous reduction of public investment expenditure up to 1981. This implies also a reduction in foreign borrowing as the public debt has reached a high level and debt servicing is taking an increasing share of export revenues.

The Government is also trying to prevent a too rapid rise in labour costs which is hampering its export policies. The policy of Ivorirization is being actively pursued, the percentage of Ivoirian employees in the total being 62 per cent in 1977. Moreover, the Ivorization of capital holdings is also improving, the number of domestic holders of bonds has grown from 3,000 in 1976 to 6,000 in 1977 and the total equity they held amounted to CFAF 11.5 billion.

The Ivory Coast has succeeded in diversifying its agriculture and the range of products marketed is now fairly wide. In manufacturing industry, import-substitution and raw material processing has been taken a long way and high growth rates have been achieved in recent years but the effort to diversify into manufactured goods for export has not yet achieved significant results. As in countries in similar stages of development it is now proving difficult to move to the next phase of economic growth.

### D. PROSPECTS FOR 1979 AND 1980

In 1979 and beyond, growth will probably be at a lower rate than in the early 1970s. In 1979 a growth rate of 4 to 5 per cent in real terms has been predicted and a similar rate seems likely in 1980.

## KENYA

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978/79

#### 1. Introduction

In 1978 the Kenya economy continued to benefit to some extent from the coffee boom which started in 1976, but 1979 has been a year of comparative stagnation being influenced by the general world economic scene and much lower earnings from coffee. The latest estimates are for a GDP growth rate at constant prices of 5.7 per cent in 1978 but of probably 4 per cent or less in 1979.

The terms of trade deteriorated in both 1978 and 1979 and in the first half of 1979 the fall was 22 per cent compared with the average of 1978. The low price for coffee exports accompanied by higher import prices and particularly of crude petroleum was responsible for this substantial deterioration.

Because of the fall in the country's foreign reserves in 1978, an import deposit scheme was introduced in December and as a result imports in 1979 have been substantially reduced from the high level of 1978. The lower external trade deficit now forecast at K£175 million in 1979 may be compared with the particularly high figure of K£265 million recorded in 1978. In the first seven months of 1979 gross foreign assets of the Central Bank of Kenya have increased by some 25 per cent to reach K£169 million at the end of July 1979. This increase suggests that the balance of payments position in 1979 is more satisfactory than in 1978 although the size of the trade deficit forecast for the year means that the situation must be kept under constant review.

The import boom of 1978 was a direct consequence of the relaxation of controls which had followed the very buoyant economic conditions and the exceptional current surplus on the balance of payments in 1977. However, the very large increase in imports in 1978 had led to an extraordinarily high visible trade deficit and this had to be met by imposing stringent controls which became practically effective in the first quarter of 1979.

There is some evidence that earnings in the commerce sector have been adversely affected in 1979 by the controls in operation but in general the economy is experiencing a year of stagnant consumer demand. The construction sector in contrast is enjoying boom conditions helped by the higher capital expenditure under the new development plan and the spending of funds accumulated in the private sector in 1977 and 1978. However, this sector is still too small to have any material impact on the level of economic activity in the country as a whole.

There was a small increase of 1.4 per cent in the contribution of agriculture to GDP at constant prices in 1978 but the present indications are that this rise was offset in 1979 by a similar percentage fall. Manufacturing industry which had been a major growth sector in both 1977 and 1978 was experiencing a year of small growth in 1979.

There is a strong correlation in Kenya between the percentage increases in GDP in the money economy at constant prices and the rise in energy consumption. Between 1972 and 1978 the monetary economy grew by 36 per cent and the rise in consumption of energy in the form of oil, electricity and coal was 35 per cent. In the first half of 1979 domestic consumption of petroleum fuels and electricity rose by 2 to 3 per cent and this suggests that GDP at constant prices probably increased by the same proportion.



## 2. GDP by industrial origin

The more important features of the changes in GDP in 1978 and 1979 have already been covered. Table 1 below provides data on the GDP for the years since 1975 together with constant price growth rates by sector tentatively forecast for 1979.

Kenya: Table 1. GDP by source, 1975 to 1979 (millions of Kenya pounds)

	1975	1976	1977	1978	Forecast 1979
<u>At current prices</u>					
Agriculture, forestry, fishing	361.38	484.44	688.29	664.28	
Mining	3.42	3.41	3.81	3.81	
Manufacturing	127.39	159.70	199.31	245.75	
Electricity, etc.	19.98	23.10	31.07	37.28	
Construction	63.74	68.06	80.21	90.80	
Wholesale and retail trade <u>a/</u>	121.86	144.46	199.54	239.03	
Transport and communication	60.25	69.15	74.05	93.22	
Services	294.62	343.82	404.26	482.04	
Total GDP at factor cost	1 052.64	1 296.14	1 680.54	1 856.21	
<u>At constant 1972 prices</u>					<u>Increases in Percentages</u>
Agriculture, forestry, fishing	258.17	256.11	279.29	283.48	-1.5
Mining	3.11	3.41	3.53	3.53	...
Manufacturing	94.31	111.92	129.69	148.40	5.0
Electricity, etc.	16.45	18.46	19.81	21.55	18.0
Construction	42.41	41.30	44.55	47.08	12.0
Wholesale and retail trade <u>a/</u>	66.24	71.72	79.65	85.38	...
Transport and communication	40.67	44.91	46.13	48.69	4.0
Services	232.34	247.76	261.57	275.71	4.0
Total GDP at factor cost	753.70	795.59	864.22	913.82	2.8

Source: For GDP figures: Economic Survey 1979: Central Bureau of Statistics, Republic of Kenya. For 1979 growth rates: Central Bureau of Statistics, Republic of Kenya.

a/ and restaurants and hotels.

An effective lack of growth in agriculture since 1977 together with continued increases in output from manufacturing, construction and electricity production has meant that the proportion of GDP at constant prices contributed by agriculture, forestry and fishing has declined while the share from industry has risen. In 1979 29.7 per cent of GDP at constant prices came from agriculture, 25.3 per cent from industry and 45 per cent from services. In 1977 the proportions were 32.3, 22.9 and 44.8 per cent respectively.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. The rains have been heavier than normal in the main rainy seasons in 1978 and 1979 and this has had its impact on certain crops. At the same time the problem created for farmers in disposing of their maize crops to the official marketing board has meant that plantings of maize have been reduced. Sugar-cane output has grown very rapidly and production of tea has benefitted from the heavier rainfall but for coffee, production in 1978 was substantially lower than in 1977 while there was a further reduction in 1979.

Livestock generally has been pastured more easily on the grasses created by the heavier rainfall and both milk and meat output were higher in 1978 than in 1977 although some fall in milk production appears to have taken place in 1979. Thus the general situation in agriculture is of stagnation of over-all production in 1978 and 1979 after the large increase recorded in 1977.

Kenya: Table 2. Commercial agricultural production a/, 1975 to 1979 (in thousand tonnes except milk which is in million litres)

	1975	1976	1977	1978	1979 b/
Coffee	66.15	80.30	97.07	84.33	78.6
Tea	56.73	61.98	86.29	93.37	96.0
Sugar cane	1 654.58	1 652.60	1 888.14	2 349.21	2 701.6
Maize	487.83	564.75	423.96	236.27	237.0
Wheat	145.46	186.77	169.88	165.94	160.0
Rice paddy	32.11	30.30	41.42	35.82	34.0
Cotton	16.12	15.80	16.26	27.19	35.0
Sisal	43.64	33.56	33.20	31.46	33.0
Milk	230.61	208.66	259.45	169.80	c/

Source: Economic Survey 1979: Republic of Kenya, Central Bureau of Statistics.

a/ Sales to marketing boards only.

b/ Forecast.

c/ A fall is likely.

(b) Mining. This is a small sector economically and the major products are gemstones, fluorspar and soda ash. The volume of total output has changed little since 1976 but changes in relative prices have had an impact on production of specific minerals and their profitability.

(o) Manufacturing. After volume increases in output of 16 per cent and 14 per cent respectively in 1977 and 1978, the present indications are that growth in 1979 will be much lower and around 5 per cent. A substantial number of subgroups of the manufacturing sector have reported increased sales in the first half of 1979. Production of sugar, soft drinks and fabrics increased by more than 10 per cent in volume over the same period of 1978 but output of wheat flour and beer declined while that of cigarettes was at about the same level. Total production of cement increased by 9 per cent in January to July 1979 and of petroleum products rose by 5 per cent in the first half of the year, for wood, plastic and rubber products and transport equipment the increases in the value of sales reflect some rise in output volumes.

As indicated in earlier surveys there has been a fairly substantial rise in the range of products manufactured in Kenya since 1976 and the volume increase of nearly 40 per cent in three years shows how the sector has expanded. One reason for the slow down of growth in 1979 is the difficulties facing the Ugandan economy but stagnation in consumer demand has also contributed.

(e) Energy. All petroleum consumed is imported or produced from imported crude. Electricity consumption includes supplies imported from Uganda but in 1978 and 1979 large increases in domestically-generated hydro-electric power have enabled imports to be curtailed.

The present production at the Mombasa Oil Refinery includes about 40 per cent for export but this proportion has fallen fairly drastically since 1973 when 54.3 per cent of products were exported.

Local production of energy in the form of petroleum, electricity and coal and coke but excluding fuelwood and charcoal accounted for only 12.8 per cent of consumption in 1978, an improvement on the 9.5 per cent of 1975 but well below what can be considered a suitable proportion. The continued heavy dependence on crude petroleum imports exposes the economy to many basic difficulties.

Kenya: Table 3. Electricity and petroleum production, 1975 to 1979

	1975	1976	1977	1978	First half 1979
Electricity generated (million kwh)	971	1 158	1 113	1 382	736
Crude petroleum throughput at oil refinery (million tonnes)	2 838	2 575	2 570	2 585	1 348

Source: As table 2.

(f) Construction. This sector has been recovering from a setback experienced in 1975 and 1976 and output volume increased substantially in 1977 to 1979 while the profitability of the industry also improved.

Cement consumption including stock changes in the domestic economy has risen rapidly since 1976 from 358,500 tonnes in that year to 482,500 tonnes in 1977, 523,400 tonnes in 1978 and a possible 610,000 tonnes in 1979.

Figures of building plans passed in the major municipalities together with the higher level of capital spending envisaged in the latest development plan suggest that output from this sector will continue to grow probably at a substantial rate.

(g) Transport services. After the disruptions which occurred from the fairly abrupt nature of the break-up of the institutions serving the East African Common Market Area, recovery is now very much in evidence in the performance of the major transport modes. There is still a lack of data, although this problem is also being overcome, so it is difficult to present a comprehensive picture but what is available shows that the number of vehicles on Kenya's roads has been rising rapidly. The capacity of Mombasa Harbour has been raised although with disruptions in transport links with neighbouring countries there has not been any real increase in the cargo loaded and unloaded since 1975.

The railway system is being improved both the permanent way and the quantity and quality of the rolling stock available; and the changeover from East African to Kenya Airways has reached the stage where Kenya is now starting to offer services to new destinations.

The completion of the two new major international airports at Nairobi and Mombasa has coincided with a period of fairly flat tourist demand for air travel but there are now signs of growing traffic on direct flights from Europe to Mombasa in particular.

(h) Tourism. Tourism has been going through a difficult period since 1975 if judged from the total number of visitor departures but the figures given in table 4 are probably somewhat misleading because the major fall in visitor departures has been in persons from Uganda and Tanzania whose expenditure in Kenya is not nearly as significant as for persons from other originating areas.

Kenya: Table 4. Tourist statistics, 1975 to 1979 (thousands)

	Departures	Total stay	Bednights <u>a/</u>
1975	386.1	4 963	3 209
1976	424.2	5 308	3 574
1977	344.4	5 101	3 838
1978	333.3	4 745	3 982
First half 1979	168.9	...	2 090

Source: As table 1.

a/ Includes permanent guests and Kenya residents.

The total stay of visitors has also been stagnant or falling since 1975 but with more occupation of hotels by permanent guests and Kenya residents there has been a continuous growth of hotel bednights. There is also evidence that visitors to Kenya are spending more time in hotels and less with friends and relatives.

#### 4. Expenditure and the GDP

The figures given in table 5 show that between 1975 and 1978 the growth rate of expenditure on gross fixed capital formation was much greater than the increase in private consumption and public consumption. This indicates the effort being made to speed up development by building fixed assets to produce future wealth.

Kenya: Table 5. Expenditure and the GDP, 1975 to 1978 (millions of Kenya pounds)

At current prices	1975	1976	1977	1978	Annual growth per cent per annum
Private consumption	912.03	913.48	1 068.19	1 340.61	18.3
Public consumption	219.30	253.79	322.05	407.00	22.6
Gross fixed capital formation	241.89	290.43	390.01	508.67	28.2
Change in stocks	-24.81	3.84	51.22	88.58	...
Exports less imports	-56.10	10.10	68.30	-220.60	...
Total GDP at market prices	1 192.31	1 471.64	1 899.77	2 124.26	21.3

Source: As table 1.

The proportion of GDP on public and private consumption in 1978 was 82.3 per cent and on gross fixed capital formation was 23.9 per cent. There were also stock increases equal to about 4 per cent of GDP but much of these increases was a result of the import boom that occurred. The excess of consumption and capital formation over the level of GDP of 8.2 per cent excluding stock changes and 10.4 per cent including stock changes was financed by the inflow of resources from abroad.

#### 5. External trade and balance of payments

As indicated earlier the relaxation of controls as a result of the very favourable balance of payments situation in 1977 led to a very large increase in the volume of imports in 1978; however, the loss of foreign reserves which then occurred itself led on to the introduction of an import deposit scheme in December 1978 designed to curtail imports and restore the country's foreign reserves. This has meant that after a very high level of imports in 1978 these have been reduced quite drastically in 1979 and have fallen at the same time as export earnings have been reduced.

The country's most important exports are coffee and tea followed by petroleum products. While there was a large rise in export earnings in 1977 as a result of the coffee boom, reductions in exports in 1978 and again in 1979 caused the difficult foreign exchange situation which has been described and the measures necessary to combat the same. As regards import prices there was no over-all increase in 1978 but in 1979 the situation has worsened quite considerably and one result has been that the terms of trade have deteriorated sharply. Based on 1976 the trade terms were 112 in 1978 but in the first half of 1979 had fallen to the low figure of 87.

Kenya: Table 6. External trade and balance of payments, 1975 to 1979  
(millions of Kenya pounds)

	1975	1976	1977	1978	First half 1979
<u>External trade</u>					
Exports and re-exports	238.0	345.1	501.8	395.7	186.5
Imports	362.6	407.0	531.4	661.2	288.8
Balance	-124.6	-61.8	-29.6	-265.5	-102.3
<u>Balance of payments</u>					
Goods and services (net)	-102.4	-58.0	-5.4	-292.3	...
Private transfers (net)	-1.4	-6.3	3.5	7.5	...
Government transfers (net)	19.9	12.4	26.0	32.3	...
Capital	68.9	88.6	90.4	171.0	...
Reserves and related items	16.9	-35.6	-112.7	77.6	...
Errors and omissions	-1.9	-1.1	-1.8	3.9	...

Source: As table 1.

The balance of payments statistics since 1975 show a large and increasing net inflow of capital and in 1977 and 1978 this capital inflow was accompanied by larger inflows of government transfers. These funds have enabled the deficits for goods and services to be covered for the four years as a whole but in 1978 itself there was a large rundown of foreign reserves because of the size of the external trade deficit.

While information is not yet available for 1979, what is available on the gross foreign assets of the Central Bank suggests that the reserves have been replenished to some extent. For the year as a whole the external trade deficit will still be high but at K£175 million there will be a substantial improvement compared with 1978 when it was as high as K£265.6 million.

#### 6. Development aid and external debt

The data given above on government transfers shows a net inflow of K£19.9 million in 1975, 12.4 million in 1976, 26 million in 1977 and K£32.3 million in 1978. Not all these funds accrue directly to the central government because their accounts show external grants ranging from K£7 million in 1975/76 to K£28.7 million in 1978/79. However, the general trend in both sets of figures is encouragingly upward.

Despite the increase in grants, external loans to the public sector have been rising rapidly and the external debt, funded and unfunded, doubled between June 1973 and June 1978 to reach K£242.6 million and net servicing charges in the year which ended June 1978 were K£31.17 million. Debt service charges on central government debt were equal to 5.5 per cent of earnings from goods and services but in 1979 the figure probably rose to 7 per cent.

## 7. Government revenue and expenditure

In the period 1974/75 to 1978/79 total central government expenditure and current revenue both rose by 122 per cent. As table 7 shows the largest increases occurred in the financial year 1977/78 when current revenue rose by 40 per cent.

Kenya: Table 7. Government revenue and expenditure, 1975 to 1977 (fiscal year to June)  
(millions of Kenya pounds)

	1974/75	1975/76	1976/77	1977/78	1978/79 <u>a/</u>
Current revenue	226.6	269.2	320.6	472.2	502.3
Current expenditure	207.4	246.8	285.1	400.1	470.0
Capital receipts <u>b/</u>	8.2	7.0	10.5	9.0	28.7
Capital expenditure	94.2	126.4	124.7	190.2	210.0
Over-all balance	-66.8	-97.0	-78.7	-109.1	149.0
Financed internally <u>c/</u>	31.0	53.3	53.3	65.9	82.2
externally	25.8	43.7	25.4	43.2	66.8

Source: As table 1.

a/ Provisional estimates only.

b/ External grants.

c/ Residual item, includes changes in cash balances.

After this sharp rise in 1977/78, growth of current revenue was substantially lower in 1978/79 and although the rate of increase in total expenditure was much less than had been budgeted, it was sufficient to widen the deficit which required financing. This deficit of K£149 million appears to have been covered by K£66.8 million from external funds and K£82.2 million domestically.

## 8. Money and banking

There was a sharp fall in net foreign assets in 1978 accompanied by a large rise in domestic credit. Measures taken at the end of 1978 had the effect of stabilizing the level of domestic credit and of strengthening the foreign assets. The details are given in table 8, the fall in net foreign assets in 1978 was K£82.7 million and the rise in domestic credit was K£165.9 million or 35.9 per cent. There was a larger proportionate rise in credit to the government than in claims on the private sector.

In 1979 data for the first four months show domestic credit at April only 1.3 per cent higher than at December 1979 while the net foreign assets rose by K£14.8 million to reach K£112.5 million. Figures of gross foreign assets of the Central Bank of Kenya show a further rise in the period to July 1979 while domestic credit has also been increasing although at a fairly modest rate.

The money supply had risen at a rapid rate in 1977 but the increase of money and quasi-money in 1978 of 13.7 per cent was very much less than the 46.8 per cent rise recorded in 1977. In 1979 the rate of increase in money supply has been further reduced. There was a fall in the first four months of the year but figures for July 1979 show an 8 per cent rise over July 1978.

Kenya: Table 8. Monetary survey, 1975 to 1979 (millions of Kenya pounds)

	End 1975	End 1976	End 1977	End 1978	April 1979
Net foreign assets	28.4	72.6	180.4	97.7	112.5
Domestic credit					
Net claims on Government	88.3	94.9	90.0	161.3	158.8
Claims on official entities	15.2	10.7	12.9	10.5	12.5
Claims on private sector	217.2	268.1	359.8	456.8	465.5
Money	227.0	283.7	421.3	465.0	442.4
Quasi-money	113.7	139.0	199.3	240.9	250.3
Other items (net)	8.3	23.6	22.5	20.3	...

Source: IMF, International Financial Statistics, vol. XXXII, No. 10, October 1979.

On July 1st 1979 the statutory liquidity ratio for the commercial banks was reduced from 18 to 16 per cent signalling some easing of the limitations in force on domestic credit probably associated with the more satisfactory foreign asset position and the signs of stagnation in the economy

#### 9. Wages and prices

Consumer prices averaged for three income groups rose by 10.7 per cent in the year ending in September 1978 and 8.2 per cent for the succeeding year to September 1979. The latter period includes the impact of measures introduced in the budget of June 1979 to raise more indirect taxes from the middle and upper income groups. The inflation rate was certainly lower in the year to September 1979 than in each of the previous four years. While consumer prices rose at an annual rate of 11 per cent in the four months to September 1979 the rate of increase for the year succeeding the June 1979 budget is expected to be lower.

Wages in the two years 1977 and 1978 failed to keep pace with the increase in consumer prices so it has been estimated that real average wages fell by 4.3 per cent in 1977 and a further 4.4 per cent in 1978.

#### 10. Employment and unemployment

The presidential directive on employment has called for a 10 per cent increase in the numbers employed and the expectation is that this will result in at least 70,000 persons being able to find work in 1979. The record of wage employment shows that in 1978 there was a rise of only 1 per cent in numbers employed in that year bringing the total to 911,500 compared with 819,100 in 1975.

The rate of creation of new jobs over the last few years has not been sufficient to absorb the school leavers nor the substantial numbers of unemployed seeking work.



## 11. Other social sectors

(a) Education. There has been a fall in the numbers enrolled at primary schools over the last two years and the total for 1978 is currently estimated at 2,978,000 compared with 2,995,000 in 1976. Thus there has been some fall off in the proportion of the 6-12 year old age group at school with a figure for 1978 of 83.2 per cent compared with 85.6 per cent in 1977.

As reported in last year's survey the growth of secondary enrolments in Kenya is taking place almost entirely in unaided schools which are being developed throughout the country by the efforts of parents and neighbourhood associations. In 1978 there were 240,615 students at unaided schools and 121,410 in aided schools. For aided schools the increase since 1976 was only 2,775 but for unaided schools the rise in enrolments was 78,862.

Technical and vocational training is also being increased in Kenya while at the university level there were 5,942 students at the University of Nairobi and 1,553 at the Kenyatta University College in 1978/79 with a fairly substantial increase in enrolments in the 1979/80 academic year.

(b) Health. Health services are being improved in Kenya by additions to physical facilities, in the personnel available and through education in personal hygiene. In 1978 there were 225 hospitals, 201 health centres and 1,103 sub-centres and dispensaries with 24,708 beds and cots, a rate of 166 per 100,000 population.

The increases in health personnel in 1978 were in the numbers of clinical officers in government service and in the total pharmacists, registered and enrolled nurses. There were 1,466 doctors, 130 dentists, 1,459 clinical officers, 245 pharmacists, 6,388 registered nurses and 7,908 enrolled nurses. For the doctors the ratio was 9.5 per 100,000 population and for nurses it was 92.67 per 100,000.

(c) Housing. Rent surveys carried out in the more important urban areas reveal a very substantial growth in shanty-type dwellings. Considerable efforts are being made to supply many more dwelling units to help meet the housing shortage but in general progress is not as rapid as is required.

## B. MAJOR PROBLEMS

The balance of payments has been difficult since early 1978 and steps taken to control the situation have had the effect of reducing the over-all growth rate of the economy. Employment creation has not been high enough to cater for all those seeking work and in 1979 farming incomes have been reduced by about 7 per cent because of the fall in coffee prices and lower output. One direct consequence of the ending of the boom induced by high coffee and tea prices has been to cause consumer demand to fall or stagnate leading to much lower growth in output from manufacturing industry. Industry has also been hit by the continued Tanzania border closure and by the difficulties in Uganda.

### C. INTERNAL DEVELOPMENT POLICIES

The new development plan to run from 1979 to 1983 aims for economic growth leading to an equitable distribution of the increased income and wealth among the people. The alleviation of poverty has a dominant position in the formulation of policies.

Improvements are planned for the nation's tax structure and measures are proposed for a more efficient use of scarce resources. The growth rate aimed for is 6.3 per cent a year and Kenya will continue to seek foreign private investment in selected sectors as well as grants and loans from international donors in order to augment the domestic resources available.

After the easier development options in earlier plan periods it is now necessary to consider moving in agriculture to the development of arid and semi-arid areas and in industry to an emphasis on increasing production for export. Dispersion of industrial activity throughout the country is another objective.

The budget in June 1979 increased the level of the sales tax from 10 to 15 per cent and raised other indirect taxes including licence fees on vehicles in order to levy more tax on the middle and upper income groups.

### D. PROSPECTS FOR 1979 AND 1980

The year 1979 has already been covered, a growth rate of GDP at constant prices of less than 4 per cent is now in prospect. For 1980 much will depend on progress in agriculture and the earnings realized from the major exports. Coffee prices could be higher in 1980 and output should recover from the low level of 1979. More earnings from agriculture will help create a base for increased consumer demand and ease the balance of payments constraints. A freer economy would be able to advance more rapidly.

LESOTHO

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978/79

1. Introduction

In the last survey in this series tentative figures for the estimated GDP up to 1977/78 were published which showed an average growth rate of about 20 per cent a year at current prices between 1975/76 and 1977/78; at constant prices the increase was probably around 6 per cent a year. These figures were only very approximate and will naturally be subject to substantial revision when more detailed estimates have been made. No estimates have been prepared for 1978/79 but the agricultural industry had another relatively successful year, the mining sector benefited from the substantial increase in diamond production, and the commerce and services sectors saw further advances based on figures of substantially higher imports and of higher government current expenditure. There was some fall in the average numbers employed on the mines in South Africa but their average earnings were increased. Construction activity has again increased in line with the greater investment effort especially in the public sector. A further rise of at least 20 per cent in GDP at current prices is indicated; at constant prices the increase would probably have exceeded 6 per cent.

The external trade deficit widened in 1978 despite a large increase in exports from R 12.2 million to R 29.6 million. Imports rose from R 199.4 million to R 230.3 million so the realized deficit which had been R 187.2 million in 1977 increased to R 200.7 million. There was a rise in the net foreign assets of the commercial banks in 1978 (there is no central bank) of R 2.8 million so the increase in the trade deficit was more than covered by personal remittances (including purchases) by migrants working in South Africa, and an aid and capital inflow.

Figures to October 1979 show a further rise in net foreign assets this time of nearly R 20 million so this should indicate an increase in the inflow of personal remittances, and a higher aid and capital inflow. Imports were substantially greater in the first quarter of 1979 and despite higher earnings from diamond exports the trade deficit probably widened further. With higher capital expenditure and an increase in Government recurrent expenditure the present indications are that the GDP should again rise substantially at current prices in 1979/80 but much will depend on the adequacy or otherwise of the rains for agricultural production. After three relatively good seasons, there is always the prospect of a bad season with low rainfall.

2. GDP by industrial origin

There is little to add to the data published in last year's Survey and table 1 is a repeat of the information given in that table for 1975/76 to 1977/78. For 1978/79, mining's share of GDP probably rose substantially but for most other sectors the relative

proportions were likely to have changed only little. Agriculture is still by far the most important productive sector in the economy. The services sectors including commerce, hotels and transport accounted for more than half the total GDP in 1977/78 and this was also the case in 1978/79.

Lesotho: Table 1. GDP by source, 1975/76 to 1977/78 (million of rands)

At current prices	1975/76	1976/77	1977/78
Agriculture, forestry, fishing	37.7	43.6	38.1
Mining	1.7	2.7	3.0
Manufacturing	3.6	3.8	2.6
Construction	2.6	5.3	13.1
Wholesale and retail trade, hotels and restaurants	15.3	21.0	25.7
Transport and communications	2.1	2.9	3.6
Services a/	23.3	27.0	40.4
Total GDP at factor cost	87.3	106.3	126.5

Source: Compiled from data supplied by Lesotho authorities.

a/ Includes electricity and water.

### 3. Selected economic sectors

(a) Agriculture, forestry, fishing. Considerable attention is still being given to developing the agriculture sector and priority for agriculture is one of the keynotes of the proposed third development plan. This emphasizes the enhanced local production of food grains, soil conservation and afforestation and linkages of agriculture to agro-industries in order to promote investment in agricultural production. The farming population will be educated in good farming practices and the proper maintenance of conservation works.

After the poor crop year in 1975/76, output in the three succeeding seasons was good being helped by the favourable rainy seasons. However, despite the increase in output, food imports continue at a high level.

Lesotho: Table 2. Output of selected agricultural products, 1975 to 1978

	1975/76	1976/77	1977/78	
Maize (thousand tonnes)	49	126	143	
Sorghum (thousand tonnes)	24	62	86	
Wheat (thousand tonnes)	45	53	58	
Peas and beans (thousand tonnes)	14	22	15	
	1975	1976	1977	1978
Mohair exports (tonnes)	600	300	397	495
Wool exports (tonnes)	2 600	1 700	2 800	2 392

Source: Compiled from data supplied by Lesotho authorities.

The Basic Agricultural Services Programme designed to provide a country-wide service and inputs to agriculture has been slow in starting but it is now being supplemented by a mountain livestock development programme. This latter programme will co-ordinate animal health, stock-breeding and range-management activities in selected areas. The national abattoir under construction will provide a valuable focal point for the processing of the offtake of the livestock sector. There are other programmes to encourage pig-raising, poultry-farming and fish-farming. A woodlots project has been under way since 1973 and is now being supplemented by a large-scale forestry project.

One result of the present distribution of incomes of rural households is that there is a substantial proportion of children who are chronically malnourished.

(b) Mining. The Letseng-Le-Terai diamond mine entered into full scale production in 1978 and exports of diamonds in that year rose to 67,222 carats worth R 16.70 million. The average value per carat was R 248.4, three times as high as in 1977 when 14,977 carats were exported. Other minerals exploited at present include clay and certain building materials. A complete inventory of existing and potential mineral resources is being prepared. Several promising diamond deposits have been identified and uranium and mercury mineralization has been discovered. These are all being followed up.

It is proposed to open and operate a diamond mine at Kao and to open three new sites for co-operative diamond digging besides upgrading the two existing sites.

(c) Manufacturing. There are 36 manufacturing enterprises of which nine process agricultural and other locally-produced products. The remainder process or assemble imported materials or components. There are also a number of handicraft centres. Development activity in this sector is concentrated on the activities of the Lesotho National Development Corporation and BEDCO, the organization established to help develop small-scale enterprises. A major new project which will have a substantial impact on output in this sector is the abattoir scheduled to enter production in 1980. Factories to provide building materials from local materials have also been built.

(d) Electricity. Most electricity used in Lesotho is imported from the South African grid but it is proposed to develop local capacity and the large-scale water scheme to provide water in bulk to South Africa will also generate substantial electricity. There are other possible hydro-electric power sites.

The Highland Water Scheme will entail the construction of 5 dams for storage, a 100 km diversion tunnel, 3 power stations and a pumping station. Construction is expected to begin towards the end of the third plan period but will take 20 years to be completed.

(e) Construction. This has been a major growth sector over the last few years and increasingly the country is benefiting from the ability of its local contractors to develop their capacity to undertake major contracts. In any event the increase in development expenditure has helped create additional employment in this sector. By the end of the third plan period it is hoped to have 3,500 persons working in the labour-intensive construction unit.

(f) Transport services. Road development has been given a sharp impetus in line with the policy of opening up the mountain areas and linking them to the other areas of the country. The policy of high road expenditure is to continue in the third plan period when a total of R 102 million is scheduled to be spent. In this same period the new international airport will be built for R 34 million and when completed will be able to accommodate aircraft on flights from outside the subregion.

In 1976 a total of 10,163 road vehicles were registered or reregistered and in 1977 the figure rose to 11,590. Of the latter total 1,130 were trucks and 3,287 were vans. There were also 237 buses and mini-buses and 1,303 tractors and combine harvesters.

(g) Tourism. The number of tourists in 1978 was 138,000 compared with 118,000 in 1975. Over the years the number of hotels has increased and on 1 December 1979 the Maseru Hilton was officially opened. However, persons travelling away from the capital have few places, if any, to stay and it is hoped that hotels will be developed in areas opened up by the new roads being built.

#### 4. Expenditure and the GDP

There are no new data and it was shown in last year's survey that while total GDP at market prices in 1977/78 was R 160.2 million, private consumption expenditure was a high R 268.4 million, public consumption was R 32.9 million and gross fixed capital formation was R 36.9 million. There was also an increase in stocks of R 4.5 million so the gap between GDP and total expenditure had to be financed by a new resource inflow of R 182.5 million. This resource inflow was financed by the earnings of migrant workers abroad and by an inflow of aid and capital.

For 1978/79 it seems likely in view of the higher visible trade deficit that the net resource inflow was greater than in 1977/78. Gross fixed capital formation in 1978/79 was probably significantly higher than in the preceding year.

#### 5. External trade and balance of payments

There was a further rise in the external trade deficit in 1978 from R 187.2 million to R 200.7 million but the extent of the increase was very much less than those recorded in 1976 and 1977. The substantial rise in exports in 1978 was due to much higher earnings from diamonds.

As shown in table 3 net earnings of Basotho abroad rose sharply in 1975/76 but the rate of increase in 1977 and 1978 was more muted. In 1977/78 these earnings were valued at R 118.3 million.

Other large net inflows in 1977/78 were R 32.9 million from the customs union agreement and R 25.2 million received as Government grants and loans or as directly funded aid.

Lesotho: Table 3. External trade and balance of payments, 1975 to 1978 (million of rand)

	1975	1976	1977	1978 a/
<u>External trade</u>				
Exports	9.2	14.7	12.2	29.6
Imports	117.3	179.6	199.4	230.3
Balance	-108.1	-164.9	-187.2	-200.7
	1974/75	1975/76	1976/77	1977/78
<u>Balance of payments</u>				
Goods and services (net) b/	-109.6	-149.3	-160.4	-175.3
Net earnings Basotho abroad	59.9	90.0	103.1	118.3
Customs union revenue	17.3	15.5	16.5	32.9
Government grants and loans	4.5	8.4	10.4	15.2
Directly funded aid	5.0	7.0	10.4	10.0
Private foreign investment	5.0	13.6	20.6	5.3
Reserves etc, c/	17.9	14.8	-0.6	-6.4

Source: Compiled from data supplied by Lesotho authorities.

a/ Provisional.

b/ Excludes migrants' net earnings.

c/ And errors and omissions.

Both these sources of inflow rose in 1978/79 and the country's net foreign assets also increased.

#### 6. Development aid and external debt

In 1977/78 as shown in the balance of payments statistics external grants and loans to the Government were valued at R 15.2 million and directly funded aid at R 10.0 million. These figures show a substantial increase on those of R 4.5 million and R 5 million recorded for 1974/75.

Capital assistance constitutes a generous response on the part of the donor community. In 1979/80 such assistance was expected to be worth R 29.4 million.

The total of loans currently outstanding with Government had risen to R 53 million in 1979 of which R 13.6 million was internal public debt and R 39.5 million was external public debt. A successful domestic bond issue helped raise total internal debt to R 31.6 million by the end of 1979.

## 7. Government revenue and expenditure

Table 4 provides information from the budget estimates or revised estimates. While the data on the recurrent revenue are thought to be on a consistent basis, the method of presenting the recurrent and capital expenditure has been changed for 1978/79 and 1979/80 so that the series is not consistent with earlier years. This is particularly so for the capital account which in the two latest years includes donor-aided expenditure. In 1979/80 such expenditure totalled R 65.18 million.

However, it is obvious that revenue has multiplied at a rapid rate since 1975/76. In 1978/79 out of total revenue estimated at R 77.44 million, customs revenue was R56.14 million. Similarly in 1979/80 customs revenue was R 71.50 million out of a total of R 96.22 million.

Lesotho: Table 4. Government revenue and expenditure, 1975/76 to 1979/80 (millions of rand)

Estimates or revised estimates	1975/76	1976/77	1977/78	1978/79	1979/80
Recurrent revenue	29.3	30.1	53.69	77.44	96.22
Recurrent expenditure	26.2	32.3	45.84	66.00 a/	79.93 a/
Capital receipts	7.0	8.7	20.38	...	...
Capital expenditure	12.4	15.1	25.69	62.46 b/	100.21 b/
Total receipts	36.3	38.8	74.07	...	...
Total expenditure	38.6	47.4	71.53	128.46	180.14 c/
Balance	-2.3	-8.6	+2.54	...	...

Source: Compiled from data supplied by Lesotho authorities.

a/ Includes administration account and reserve fund.

b/ Includes donor aided expenditure.

c/ Excludes R 11.06 expected under-expenditure on capital projects.

Of the total recurrent expenditure shown for 1979/80, R 64.31 million was for expenditure from the consolidated revenue fund, R 7.00 was statutory expenditure such as public debt interest and R 8.64 million was appropriations to the consolidated administration account including the reserve fund.



In the total capital budget for 1979/80, R 25 million was allocated for roads, R 19 million for agriculture, R 12 million for financial institutions for a new central administration block and for completion of the Hilton Hotel; R 5 million was for education, R 5.5 million for commerce and industry while R 10 million was to be raised by commercial loans for new shopping complexes and R 2 million for housing. R 4 million has been allocated for a start to be made on the new international airport.

#### 8. Money and banking

There is as yet no central bank in Lesotho but in 1978 steps were taken to create the Lesotho Monetary Authority which would have power to issue notes and coin. It has already been agreed that the currency of Lesotho will be the Maloti which will be on a par with the South African Rand. Future provisions in an act gazetted in November 1978 would allow for the gradual expansion of the monetary authority into those fields handled by a central bank including the obligation of financial institutions to maintain required reserves with the authority and the regulation of interest and credit. It may also open accounts for and accept deposits from the Government.

Lesotho: Table 5. Monetary survey, 1975 to 1979 (millions of rand)

Commercial banks only a/	End 1975	End 1976	End 1977	End 1978	October 1979
Net foreign assets	17.39	17.40	23.16	25.92	45.31
Net claims on Government	-0.81	1.47	6.29	6.82	-2.53
Claims on official entities	1.40	2.34	4.29	2.58	2.03
Claims on private sector	8.43	11.57	13.64	18.45	25.59
Demand deposits	7.41	11.37	18.78	23.51	28.85
Time and savings deposits	18.70	23.24	29.24	34.32	40.20

Source: Compiled from data supplied by Lesotho Commissioner of Financial Institutions.

a/ There is as yet no central bank in Lesotho.

The Lesotho Monetary Authority was planned to commence operations in 1979 but the issue of the new currency was postponed to January 1980.

The figures given in table 5 show that net foreign assets of the commercial banks rose in both 1977 and 1978 and then increased by 75 per cent in the 10 months to October 1979. These commercial bank foreign assets do not include the substantial sums that the Government itself holds abroad.

Net claims on the Government by the domestic banks rose substantially in 1977 and then only moderately in 1978 but fell sharply to -2.53 million rand by October 1979. Claims on official entities fell in 1978 and 1979 but credit to the private sector continued to advance at a substantial rate in both 1978 and 1979.

The net effect of these movements was that demand deposits at the commercial banks rose by 25 per cent in 1978 and by a further 23 per cent in the first 10 months of 1979. Time and savings deposits were higher by 17 per cent in 1978 and by the same percentage between December 1978 and October 1979.

9. Wages and prices

As reported in last year's survey there have been substantial wage adjustments over the last few years and money wages appear to have been keeping pace with the increase in prices.

The index numbers of consumer prices, of which there are three, show that the average increases were 14.1 per cent in 1975, 11.3 per cent in 1976, 15.7 per cent in 1977 and 13.4 per cent in 1978. These rises in consumer prices have generally resulted from the increases in the prices of goods imported into the country but domestically there have been substantial increases in rents in particular.

10. Employment and unemployment

There is no firm estimate of wage employment in Lesotho but one figure quoted for the formal sector excluding agriculture is about 40,000 including 10,000 in government service, 9,000 in construction, 7,500 in manufacturing and the same number in wholesale and retail trade. There has been steady increase in employment since 1975. There were 121,062 employed on mines in South Africa in 1976, 123,941 in 1977 and 124,973 in 1978 so migrant labour is still far more important than domestic employment.

In the first half of 1979 the average number at work on the South African mines was 123,090 a reduction of 5,672 compared with the first half of 1978. Policy on recruitment to the mines now emphasizes re-employment of those with experience and this has tended to stabilize if not reduce the numbers employed. However, the numbers recruited in the first half of 1979 showed a substantial increase on the first half of 1978.

Any long-term tendency for reduced or even stagnant employment on the mines together with a lower rate of turnover of staff would reduce the number of households in Lesotho's rural areas benefiting from the relatively high incomes possible when one or more members of the household is working abroad. Rural incomes without some such supplement are extremely low.

11. Other social sectors

(a) Education. There were 226,019 primary school pupils in 1977 and probably about 230,000 in 1978. With a further 29,000 students in secondary, vocational and higher education, the total enrolment of 250,000 was equal to 19 per cent of the de jure population. This proportion would have been higher if a greater proportion of the boys had been at school but the system of migrant labour encourages the use of school-age boys for certain agricultural tasks such as livestock herding.

It is a policy to increase the number of secondary students fairly rapidly and to develop facilities for practical studies at many secondary schools.

(b) Health. In 1979 there were 17 general hospitals, 2 specialized hospitals and 143 clinics and outstations. The mountain areas are seriously underserved and many rural clinics are in need of upgrading. In the third plan period it is proposed to try to bring health services to every village. Efforts will be made to improve and expand the network of clinics and outpatient departments. The largest hospital in Maseru is to be expanded instead of building a new referral hospital in the capital.

(c) Housing. A policy has been formulated but not formally adopted which aims at equalization of housing opportunities for all income groups, the mobilization of domestic savings to finance housing and assistance for construction by self-help methods. In the third plan period low-cost housing will be built for sale and rental while existing housing will be upgraded.

(d) Income distribution. The estimates of household incomes are R 2,000 for urban households, R 1,500 for rural households where one family member is working on the mines in South Africa but R 400 or less where there is no such family member. With a tendency to a stagnant or reducing number working on the mines while the number of rural households increases, it is estimated that the proportion of poorer rural households is increasing.

#### B. MAJOR PROBLEMS

As indicated in last year's survey the extreme dependence of the Lesotho economy on migrant workers on the South African mines is a source of potential very real difficulties. The migrant labour system was tending to lead to higher numbers being employed up to 1977 but in 1978 there was a change of policy in employment on the mines and the present emphasis is now on rehiring experienced workers. Up to June 1979 this policy was leading to a small reduction in the average numbers employed with a fall from 123,762 in the first half of 1978 to 123,090 in the same period in 1979. One direct consequence is that the school-leaver now has extreme difficulty in finding migrant employment and this has increased the pressure for domestic employment from this group.

Despite the evident emergence of unemployment, Lesotho is not yet able to meet its requirements of high-level and middle-level personnel in many disciplines. Thus expatriate workers are still employed in substantial numbers.

Agricultural productivity is not showing much sign of increasing despite the intensive effort made in this direction particularly in recent years.

The mountain areas have been virtually isolated from the rest of the country and are poorly served with social amenities.

#### D. INTERNAL DEVELOPMENT POLICIES

The strategy for the third plan period aims at reducing vulnerability to external pressures through sustainable economic growth and diversification. There must be a substantial increase in domestic employment; other aims are to increase social welfare, to promote social justice, to protect land and water resources at the same time as exploiting them to the fullest extent. Programmes will aim at increased production in agriculture and industry and will ensure a deeper involvement and fuller participation of the community in national development.

The plan emphasizes local production of food grains, the development of domestic services as well as the creation of employment in industry and agriculture. In industry appropriate technology and investments with lower capital cost per employee will be aimed for.

In the social field there is a need to enhance the well-being of the rural population. Water supplies and family planning are among the fields of emphasis in the health field. Training will be directed at income generation and better family living in the rural areas.

Further extensions of road and air communications are planned to complete the programme for bringing the mountain communities into closer contact with services in the lowlands. The new international airport will come into operation in 1982. Total capital spending is set at R 512.4 million in the third plan period.

In his budget speech when introducing the 1979-80 budget, the Minister of Finance stated that the Government had already acted as an entrepreneur in building a wheat mill, the Hilton Hotel, the abattoir, and an industrial brick factory in collaboration with aid donors. He also announced measures to increase the efficiency of the collection of revenue and control over expenditure. He indicated that a general sales tax would be introduced once the details have been worked out.

The steps taken in introducing the Lesotho Monetary Authority and its policy have already been mentioned earlier in this survey. In 1979 the Government entered the local money market with its first issue of development bonds. In the light of the oil price increases, steps have been taken to conserve fuels.

#### E. PROSPECTS FOR 1979 AND 1980

The background for the likely increase in 1978/79 has been discussed in the introduction and a further rise of at least 20 per cent in GDP at current prices and one of more than 6 per cent seem likely to have taken place. For 1979/80 the impetus to higher development expenditure will continue and the widening gap between exports and imports will require more migrant earnings to be repatriated and a greater aid and capital inflow. Higher receipts under the customs union are expected and Government recurrent expenditure will also be greater. Much will depend on whether the 1979/80 agricultural season is reasonable; it is unfortunate that there could be a poor season on average every four years and there has been good rainfall for the three seasons 1976/77 to 1978/79. Thus it seems realistic to expect a lower rise of GDP at current prices in 1979/80 than has occurred in the three years to 1978/79. At constant prices the rise may also be lower than the average of 6 per cent recorded in this earlier period.

MADAGASCAR

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978-1979

1. Introduction

In 1978 there was a fall in the volume of agricultural production and probably no growth in output from industry so that the over-all result with little increase in the services sector was a fall in GDP of about 3 per cent. There was actually a rise of GDP at current prices of 3.8 per cent but consumer prices rose by 6.6 per cent and other price increases suggest that the GDP deflator was probably of the order of 7 per cent. The fall in agricultural output has been assessed at about 5 per cent due to poor rains in the growing season, in industry a shortage of raw materials and spare parts led to a stagnation in output. For services a strong increase in government expenditure on salaries did not help the services sector to record any advance at constant prices. The balance of trade worsened in 1978 with exports growing in value by 5.2 per cent but imports rising by 17 per cent. The trade deficit which was only 2.6 billion Malagasy francs in 1977 rose to FMG 12.7 billion in 1978. As a result the balance of payments went from surplus to deficit.

First information show a strong recovery in the economy in 1979. The harvest has been good with the rice paddy crop being the largest since 1975. The stimulative measures taken to revive the economy and in particular a more liberal exchange control system has had a good effect on industrial output while investments have been stepped up within the framework of the 1978-1980 development plan. A growth rate of 19 per cent at current prices has been forecast and one of 9 per cent at constant prices.

2. GDP by industrial origin

The structure of the GDP has changed very little since 1975 and in 1978 39.3 per cent of GDP was from agriculture, 19.4 per cent from industry and the balance from services.

The continuing importance of agriculture means that a fall in its GDP contribution at constant prices as in 1978 will have the effect of pulling down the over-all GDP growth rate. In 1979 because of stagnation in the other two important sectors the over-all growth rate fell. For current price measurement, growth rates were 1 per cent for agriculture, 7.4 per cent for industry and 5.9 per cent for services including government and households.

The forecasts for 1979 suggest current price growth rates of 13.2 per cent, for agriculture, 16.1 per cent for industry, and 25.2 per cent for services. The high growth rate for services is a result of a strong advance in both public and private sectors.

Madagascar: Table 1. GDP by industrial origin, 1975-1979 (millions of Malagasy francs)

At current prices	1975	1976	1977	1978	Forecast 1979
Agriculture	162.4	169.2	185.7	187.6	212.4
Industry	70.6	76.2	86.2	92.6	107.5
Services	101.9	107.2	112.0	114.0	138.1
Import duties	14.0	16.5	20.0	20.0	26.1
Gross domestic production	349.8	369.0	403.9	414.2	484.1
Administration salaries	42.4	48.9	52.5	59.6	79.8
Household services	3.0	3.2	3.0	3.0	3.2
GDP	395.9	421.1	459.4	476.8	567.1

Source: Repoblika Demokratika Malagasy : Ministere aupres de la Presidence charge des finances et du Plan: Direction de l'Institut National de la Statistique et de la Recherche Economique; Situation Economique au 1er janvier 1979.

### 3. Selected economic sectors

(a) Agriculture, forestry, fishing. This is a key sector in the country's economy employing as it does 84 per cent of the active population. Crop and live-stock production are both important. Because of the bad weather, crop production declined sharply in 1978 and lower production figures were recorded for practically all crops. The rice paddy output fell by about 10 per cent. But in contrast production of cassava remained constant at around 1,600,000 tonnes. Groundnut production decreased 38 per cent. Most of the important commercial crops including coffee, cloves and pepper showed falls in output.

Marketings reflect this lower production: sales of paddy rice fell to 225,000 tonnes in 1978 from 279,000 tonnes in 1977. Sales of other crops also fell but one exception was cloves where the quantity sold was the same as in 1977.

The fall of agricultural production and above all of rice paddy, the basic staple for most of the population, led to increased imports of cereals from 118,000 tonnes in 1977 to 148,600 tonnes in 1978. In 1979 with more favourable weather conditions production has increased. The first estimates for rice paddy show an output of 2,250,000 tonnes, 17.6 per cent more than in 1978, and a recovery is observed for all other crops. On the basis of good rains in the growing season the 1980 crop should also be good and the Ministry of Agriculture is forecasting rice paddy production of 2,327,000 tonnes.

The size of animal herds fluctuates from year to year, but on the whole there is a small annual increase. In 1978 cattle herds rose to total 6,800,000, there were increases of 9.8 per cent in the number of pigs and 8.1 per cent for goats. The sheep population fell again by 7.9 per cent following a reduction of 10.5 per cent in 1977. As for slaughterings, there was an increase for cattle and goats, but for pigs there was some reduction.

Despite the fact that Madagascar is an island, sea fishing plays only a limited role in the economy. Catches of both sea and fresh-water fell in 1978.

Madagascar: Table 2. Agricultural production, 1975-1979 (thousands of tonnes)

Production	1975	1976	1977	1978	1979 a/
Rice	1 972.0	2 042.0	2 200.0	1 913.5	2 250.0
Maize	120.0	136.0	154.0	114.6	131.0
Potatoes	121.0	133.0	150.0	179.7	215.3
Cassava	1 309.0	1 370.0	1 594.0	1 594.4	1 726.8
Sugar cane	1 377.0	1 287.0	1 352.0	1 374.1	1 431.6
Groundnuts	42.0	54.0	55.0	34.0	43.4
Coffee	84.0	79.0	89.0	78.2	81.1
Cloves	4.5	12.9	14.7	12.8	18.0
Pepper	3.0	4.9	5.8	2.5	2.4
<u>Marketed production</u>					
Rice	240.0	240.0	279.0	225.0	...
Coffee	65.0	50.0	71.2	58.5	...
Sugar cane	1 072.0	1 073.0	1 033.6	1 074.4	...
Cloves	4.5	10.6	11.8	12.0	...
Prepared vanilla	1.4	0.9	0.6	0.2	...
Cotton	30.8	34.7	37.0	33.0	...
Sisal	22.0	18.6	18.8	15.9	...
Groundnuts	21.8	17.0	20.0	24.0	...

Source: Madagascar, Minister du Developpement Rural; Banque Centrale du Madagascar.

a/ Provisional estimates.

(b) Mining. Output of both chrome ore and graphite fell in 1978 continuing the trend of recent years. Output figures were only 119,300 tonnes and 8,300 tonnes respectively compared to 164,800 tonnes and 15,700 tonnes in 1977.

(c) Manufacturing. There was an increase in over-all manufacturing production in 1978 and as shown in table 3 higher output was recorded for sugar, cigarettes, paper, soap, matches and cement. The number of cattle slaughtered also increased reflecting higher activity in the abbatoirs. Falls in output were recorded for beer and fabrics.

Output of petroleum products fell substantially in 1978 mainly because of the loss of markets in La Reunion which had previously been supplied from Madagascar. Output was 414,600 cubic metres compared to 578,900 cubic metres in 1977.

Madagascar: Table 3. Industrial production, 1975-1978

	1975	1976	1977	1978
<u>Mining</u>				
Chromite (thousand tonnes)	194.1	211.4	164.8	119.3
Graphite (thousand tonnes)	17.8	17.4	15.7	8.3
<u>Manufacturing</u>				
Cattle slaughtered (thousand)	...	80.4	81.6	90.1
Sugar (thousand tonnes)	114.5	107.3	109.4	115.0
Beer (thousand hl)	211.9	257.0	273.5	257.0
Cigarettes (tonnes)	...	1 439.1	1 804.0	1 983.0
Fabrics (million metres)	77.7	78.1	79.5	78.2
Paper (tonnes)	10 622.0	9 053.0	11 498.0	12 636.0
Soap (tonnes)	16 819.0	14 427.0	16 424.0	16 585.0
Matches (million boxes)	51.2	48.4	62.7	68.9
Cement (thousand tonnes)	58.0	69.9	52.2	66.0
<u>Energy</u>				
Refined petroleum products (thousand m <sup>3</sup> )	...	614.8	578.9	414.6
Electricity (million kWh)	245.8	257.7	271.3	282.3
Index of industrial production (1970 = 100)	112.3	111.3	113.5	115.0

Source: National data from Madagascar.

(d) Electricity. Production has been rising since 1975 with output in 1978 14.8 per cent higher than in 1975 equal to an average increase of 4.7 per cent a year. In 1978 itself the increase was 4.1 per cent with an output level of 282.3 million kWh.

Madagascar: Table 4. Selected transport indicators, 1975-1978

	1975	1976	1977	1978
Petrol and diesel oil consumption (million litres)	281.0	224.0	260.9	276.0
Ports, freight handled (thousand tonnes)	2 779.0	2 365.0	2 287.0	2 291.0
<u>Railways</u> - Freight (million tonne/km)	215.0	210.0	220.0	219.0
- Passengers (million/km)	249.0	293.0	277.0	296.0
Road vehicles - new registrations	3 756.0	3 309.0	4 126.0	...
Airport - international passengers (thousand)	66.7	76.1	94.1	87.1

Source: As table 1.



(e) Transport. The relevant indicators point to little growth in 1979; increases were recorded in the consumption of petroleum products and the passengers carried by the railways but in other sectors there was little change or a fall in volume.

#### 4. Expenditure and the GDP

There was a relative fall in private consumption expenditure in 1978 while both public consumption and gross fixed capital formation grew faster than the total increase in GDP. The proportions of GDP on consumption and investment in 1978 were 88.9 per cent and 14.3 per cent respectively with the gap in resources being covered by a net inflow of goods and services.

Madagascar Table 5. Expenditure and the GDP, 1975-1978 (millions of Malagasy francs)

At current prices	1975	1976	1977	1978
Private consumption	301.1	305.4	334.4	342.2
Public consumption	60.4	66.6	72.8	81.6
Gross fixed capital formation	48.4	52.1	58.0	66.4
Change in stocks	2.2	1.8	2.2	2.0
Exports less imports of goods & services	-16.2	-5.8	-8.0	-15.4
GDP at market prices	395.9	421.1	459.4	476.8

Source: As table 1.

#### 5. External trade and balance of payments

The large rise in imports in 1978 without a compensating increase in exports led to the trade deficit widening appreciably. At FMG 12.4 billion this was the highest deficit since 1975 when it stood at FMG 13.41 billion. In 1976 and 1977 the deficits were FMG 2.39 and FMG 2.58 respectively.

The small increase in exports in 1978 was probably due to some fall in realizations from coffee compensated for by higher earnings from the other products including vanilla and cloves. The substantial increase in imports was largely the result of higher purchases of cereals to make good the shortages caused by the poor harvest in the island.

Based on the balance of payments data for the year 1975 to 1977 the deficit on goods and services account will have widened appreciably in 1978 probably to a figure of about FMG 26 billion. Part of this deficit was covered by continuing receipts of transfers (aid) by the Government, part by running down the foreign reserves and the balance by short term credit arrangements.

Madagascar: Table 6. External trade and balance of payments, 1975-1978 (billions of Malagasy francs)

	1975	1976	1977	1978
<u>External trade</u>				
Exports	64.64	66.04	82.63	87.2
Imports	78.05	68.43	85.21	99.6
Balance	-13.41	-2.39	-2.58	-12.4
<u>Balance of payments</u>				
Goods and services (net)	-25.72	-18.40	-16.21	...
Private transfers (net)	-0.86	-0.24	0.98	...
Government transfers (net)	11.36	9.32	10.07	...
Capital	7.50	4.06	3.93	...
Reserves and related items)		10.52)		
Errors and omissions	7.71	-5.26)	1.23	...

Source: IMF, International Financial Statistics, vol. XXXII, No. 10, October 1979. 1978 trade figures from national sources in Madagascar.

#### 6. Development aid and external debt

In 1977, total aid amounted to \$US 59.2 million. This was lower than in 1976 and 1975 and the largest proportion was given for agricultural projects which took 30.2 per cent of the total. With the starting of the hydroelectric dam project at Andekaleka, aid for the energy sector jumped to \$US 14 million, but there were falls in aid for the transport sector and education. There are no firm data yet for 1978, but it seems likely that the aid inflow has continued at previous levels.

The foreign debt at the end of 1977 was estimated by the World Bank at \$US 203 million equal to FMG 47.8 billion.

#### 7. Government revenue and expenditure

Government revenue has increased rapidly in recent years, but not as quickly as expenditure so that the budget estimates show a growing deficit which is covered by increasing borrowing. In 1978, estimated revenue grew by 24.5 per cent, against 10.4 per cent in 1977. Total expenditure was raised by 15.6 per cent after growing by 18.8 per cent in 1977, but this produced nevertheless an estimated deficit of FMG 23.3 billion. For 1979, the growth of revenue is estimated at 17.8 per cent, but expenditure growth is 31.4 per cent mainly because of a considerable increase of capital expenditure. The expected deficit is estimated at FMG 45.5 billion. In line with the growth in current expenditure the number of government employees has grown from 58,942 in 1975 to 89,504 in 1979, growing by 10.4 per cent a year. The subsidization of food prices and especially rice is now costing FMG 20 billion a year.

Madagascar: Table 7. Government revenue and expenditure, 1975-1979 (billions of Malagasy francs)

Budget estimates	1975	1976	1977	1978	1979
Revenue	65.1	79.4	87.7	109.2	128.6
Expenditure - Current	56.4	69.7	83.0	95.0	116.6
- Capital	19.5	26.8	31.5	37.5	57.5
Total	75.9	96.5	114.6	132.5	174.1
Deficit	10.8	17.1	26.9	23.3	45.5
Financing					
Increase in net claims on Government					
by banking system	6.6	7.6	5.8	21.1	...
Other a/	4.2	9.5	21.1	2.2	...

Source: Data from budget estimates of National Government, IMF, International Financial Statistics, vol. XXXII, No. 10, October 1979 (for net claims on Government).

a/ Balancing item.

#### 8. Money and banking

The main feature of the monetary aggregates since 1975 has been the substantial rise in net claims on the Government by the banking system. This form of credit has risen from FMG 12.57 billion at the end of 1975 to FMG 61.7 billion at April 1979. Claims on the private sector have risen much less rapidly and over the same period there have been fluctuations in the total of net foreign assets. Thus the major influence on the growth in money supply has been government borrowing to cover the cash deficit between revenue and expenditure.

In 1978 itself net claims on the Government rose by 81 per cent and credit to the private sector by 5.3 per cent. There was a fall in net foreign assets in this period and over-all the rise in money and quasi-money was from FMG 116.43 billion to FMG 137.35 billion or by 18 per cent.

In the first four months of 1979 the same trends are apparent and money and quasi-money rose by 5 per cent in this period mainly as a result of an increase of 31 per cent or FMG 14.49 billion in government borrowing.

Madagascar: Table 8. Monetary survey, 1975-1979 (billicns of Malagasy francs)

	End 1975	End 1976	End 1977	End 1978	April 1979
Net foreign assets	12.26	14.82	15.74	14.44	10.54
Domestic credit					
Net claims on Government	12.57	20.23	26.07	47.21	61.70
Claims on private sector	72.48	76.20	91.32	96.14	97.20
Money	69.35	79.67	99.98	113.87	115.91
Quasi-money	14.36	17.41	16.45	23.48	28.29
Other items (net)	13.60	14.17	16.70	20.44	25.24

Source: IMF, International Financial Statistics, vol. XXII, No. 10, October 1979.

#### 9. Wages and prices

A 15 per cent rise in wages was awarded in May 1978, the rise in minimum wages being around 12 per cent. For public sector employees, the Government revised the salary scales so as to give some compensation to higher officials whose pay had not increased since 1972.

Consumer prices rose by 6.6 per cent in 1978, against 3.1 per cent only in 1977. The major influence was from food prices which went up 7.3 per cent. In 1979, inflation has increased substantially, the price increase between the second quarters of 1978 and 1979 being more than 12 per cent.

#### 10. Employment and unemployment

Total employment has not increased much since 1973 because of lower investment, and the main growth area has been in government employment. Nevertheless, since most of the labour force is agricultural there is no evidence of strains in the labour market. Unemployment is a problem mainly felt in the capital city. As for the young men, the problem has been alleviated by the introduction of a national service for all young people after secondary schools. These people are also finding outlets in the vastly expanded administrative structure in the provinces.

#### 11. Other social sectors

There are no recent data to add to what was published in last year's survey.

#### B. MAJOR PROBLEMS

The lower rice crop in 1978 has had an indirect impact on inflation because it increased the size of the deficit in the Government budget as well as widening the external trade deficit. There was a fall in the GDP at constant prices in 1978 but this has since been recouped because good rains have led to a good harvest in 1979. However, the policy of subsidizing the major food items is now costing FMG 20 billion a year and accounts for a high proportion of the over-all budget deficit.

Another factor having an adverse impact is the transport system used for taking supplies of food to the urban areas. This does not function efficiently and has led to higher rice imports.

### C. INTERNAL DEVELOPMENT POLICIES

In 1978 the period of institutional change came to end and the Government has since concentrated on economic development. The present system of planning has several objectives, some long term covering the period to the year 2000, others more short-term. The current three year plan 1978-1980 provides for a growth rate of 5.8 per cent per year in real terms, with most of the growth coming from the mining, energy, manufacturing, and construction sectors, but even agriculture is expected to grow at 4.3 per cent per year. If achieved this growth rate represents a major change relative to the period 1972-1978 when GDP grew by only 2 per cent per year on average. Agricultural production has actually declined in the last three years so the high priority to this sector will make it easier to feed the population without continuing recourse to higher period imports.

After the recession in 1978, the Government has taken measures to stimulate the economy and has liberalized imports to some extent by increasing the licenses to import substantially. This has helped improve essential supplies to industry. Investment has been greatly increased, and all the major products in the 1978-1980 plan have been started.

### D. PROSPECTS FOR 1979 AND 1980

As already stated strong GDP growth is expected in 1979 because of a combination of a good harvest, greater output from manufacturing industry and higher investments. The impact of a high real growth rate of 9 per cent in 1979 should also help in 1980 when investment will continue at a high level. The over-all result in 1980 will, of course, be particularly dependent on the harvest that is gathered. It is unfortunate that policies of deficit financing are having an impact on reestablishing high inflation in Madagascar.

MALAWI

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1978-1979

1. Introduction

It is estimated that GDP rose by 16.5 per cent in 1978 at current market prices and 6.4 per cent in real terms which suggest an implicit GDP deflator of 9.5 per cent. These rates were below what was achieved in 1977 but nevertheless the growth rate at constant prices was in line with the average of the earlier years of this decade.

Growth in agricultural output declined in 1978 so that the increase in the contribution to the GDP of agriculture, forestry and fishing at 1973 factor cost was 3.3 per cent, in 1977 it had been as high as 7.5 per cent. Manufacturing grew by 8.4 per cent in 1978 while there was a particularly impressive rise of 29.5 per cent from the construction industry. Growth was recorded in all other sectors of the GDP but was only 2.9 per cent in community, social and personal services (which includes the government sector).

Investment rose by 67.5 per cent in 1978 when measured at current prices and the total including changes in stocks was 283.1 million Kwacha equal to 31.6 per cent of GDP at market prices. The very high rate of investment expenditure resulted in imports rising substantially and as domestic savings covered 51 per cent of the financing of investment, recourse was necessary for external resources to cover the balance; foreign transfers both Government and private paid for 13 per cent of investment and the capital inflow for the balance of 36 per cent.

The external trade deficit in 1978 rose to K. 128.0 million which is more than four times the level of 1977 and higher than the previous record deficit of K. 96.5 million of 1975. The balance of payments shows a deficit for goods and services of K. 143.6 million in 1978 covered by net transfer receipts of K. 37.7 million and a long-term capital inflow of K. 81 million. Official reserves fell by K. 16.5 million despite an inflow of other funds estimated at K. 10 million.

Figures for the first four months of 1979 show a further substantial rise in imports but a small fall in export earnings so that the trade deficit has widened from K. 35.0 to K. 63.9 million. Tobacco auction sales from January to May 1979 are actually higher at K. 23.0 million compared to K. 19.9 million in the same period of 1978 and the value of tea auctioned is also higher although tea production was reduced in this period by 6.7 per cent; manufacturing output in January to April 1979 is 12 per cent than in the same months of 1978, electricity sold by ESCOM has risen by 15.9 per cent in the first five months of 1979 and cement sales from January to May 1979 are higher by 59 per cent.

These indicators suggest that domestic expenditure has continued to rise rapidly due partly to price rises (consumer prices were 6.6 per cent more) but the substantial increase in the external trade deficit has led to a sharp decline in the level of the country's net foreign assets from a figure of minus 11.33 million Kwacha at December 1978 to minus 50.15 million at June 1979. A policy of credit restraint may be necessary to curb the decline in foreign exchange reserves.

2. GDP by industrial origin

Table 1 shows that there was a decline in the share of GDP arising from agriculture, forestry and fishing between 1975 and 1978 and also in that contributed by manufacturing industry and transport services. In contrast the proportion of GDP from construction, wholesale and retail trade and other services increased.

Malawi: Table 1. GDP by source, 1975 to 1979 (millions of Kwacha)

	1975	1976	1977	1978	Forecast 1979
<u>At 1973 factor cost</u>					
Agriculture, forestry and fishing	186.8	201.2	216.3	223.4	229.3
Manufacturing	53.8	52.6	58.2	63.1	69.3
Construction	20.9	20.8	21.7	28.1	32.6
Electricity etc.	6.0	6.4	6.7	7.0	7.9
Wholesale and retail trade	51.4	55.0	57.8	64.5	72.9
Transport and communications	24.4	24.6	25.9	26.2	28.7
Services	75.0	82.3	97.1	102.6	108.6
Total GDP at 1973 factor cost	418.3	442.9	483.7	514.9	545.3
Total GDP at current factor cost	534.7	622.8	726.1	836.4	970.8
Total GDP at current market prices	567.6	652.8	769.3	896.2	1 042.8

Source: Malawi Government: Economic Report 1979: Office of the President and Cabinet Planning Division. National sources for 1979 forecast.

However, despite these changes, agriculture's proportion of GDP was 43.3 per cent in 1978, that of manufacturing industry was 12.3 per cent and from wholesale and retail trade 12.5 per cent. Construction and transport contributed 5.5 and 5.1 per cent respectively and other services 19.9 per cent. The economy is still one based mainly on agriculture and performance in this sector has a particular impact on growth and the level of economic activity.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. The 1977/78 growing season was similar to that of 1976/77. Fertilizer sales by the Agricultural Development and Marketing Corporation (ADMARC) during the 1977/78 season increased by 45 per cent and these sales were mainly to smallholders thus indicating the growing awareness by these smallholders of the favourable effect of fertilizers on output. Indications are that fertilizer sales by ADMARC also rose in 1978/79.

ADMARC handles smallholder marketed output and in addition there are tobacco and tea auctions while other tea is sold directly to manufacturers outside Malawi and since 1973 sugar has become a major export crop. As shown in table 2 ADMARC purchases include tobacco, groundnuts, cotton, rice, maize and other produce which includes pulses.

The value of ADMARC purchases has risen every year since 1975 and the total was K.28.7 million in 1978, 19.1 per cent higher than in 1977. Much of the rise in 1978 was due to larger maize and paddy rice purchases; the quantity of groundnuts fell once again so that the 1978 purchases were only one-third of the total of 1976.

Sales of tobacco at auction were virtually the same in 1978 as in 1977 at 51,080 tonnes but the average price was much lower so that the proceeds from the auction were K.89.2 million in 1977 and K. 67.5 million in 1978. The tobacco auctions in 1979 earned K. 23 million from 13,465 tonnes in the three months,

Malawi: Table 2. Commercial agricultural production, 1975 to 1978

	1975	1976	1977	1978
<u>ADMARC purchases</u>				
Tobacco (thousand short tonnes)	13.5	16.0	25.5	26.2
Groundnuts "	36.2	35.9	20.3	12.3
Maize "	32.2	71.5	99.1	127.9
Seed cotton "	19.6	19.8	25.0	26.7
Paddy rice "	16.2	27.0	26.3	34.0
Pulses "	14.1	20.5	9.7	11.5
Other produce "		8.9	9.5	9.3
Value (K. million)	16.0	23.0	24.1	28.7
<u>Tobacco auction sales</u>				
(thousand tonnes)	34.72	36.71	51.27	51.06
<u>Tea production</u>				
(thousand tonnes)	26.24	28.31	31.63	31.69
Sugar exports (K. million)	12.29	23.20	14.93	11.36

Source: As table 1 and Malawi Monthly Statistical Bulletin, June 1979.

March to May; in the same period of 1978 sales were 10,920 tonnes valued at K. 19.9 million. Thus the average price was slightly lower in 1979 at K. 1.71 per kg. compared to K. 1.82 per kg.

Tea production in 1978 showed no increase after recording rises in both 1976 and 1977. The total of 31,690 tonnes was virtually the same as the 31,630 tonnes of 1977. Tea prices were high at the Limbe auction sales in 1977 at K. 1.48 per kg. but had fallen to K. 0.81 per kg. in 1978 and further to K. 0.78 per kg. in the first five months of 1979. Production from January to May 1979 was down to 20,503 tonnes from 21,973 tonnes in the same period of 1978.

The total cattle holdings rose to 770,000 head in 1978 and 75,000 were slaughtered; similarly out of 210,000 pigs, 25,000 were slaughtered and from 1 million sheep and goats the number slaughtered is estimated at 50,000. Poultry holdings are extensive and imports of meat in 1978 consisted of small quantities only of beef, mutton and lamb, in all about 55 tonnes which was less than the 70 tonnes of pork exported. Malawi is now self-sufficient in meat supplies and the throughput of milk at three main dairies was 715,000 gallons in 1978.

The fish industry supplies a substantial proportion of the population's protein intake. Landings were 67,494 tonnes in 1978, less than the 74,900 tonnes recorded in 1976 and virtually all were domestically consumed. The fish-catch was worth K. 8.1 million in 1978, the highest value so far recorded.



Forestry industry sales rose in 1978 to K. 2.8 million compared with K. 2.3 million in 1977. Afforestation is continuing with 5,574 hectares planted in 1977/78 so that the total rose to 68,184 hectares of which 46,740 hectares were designated as softwood pulpwood and 14,950 hectares as softwood timber.

(b) Manufacturing. The index of manufacturing output rose by 10.9 per cent in 1978 continuing the strong advance recorded in 1977 when the increase was 11.7 per cent. In 1978 major advances were seen in footwear, clothing and footwear production (+24 per cent) and in food, beverages and tobacco (+17.4 per cent).

In 1978, 46 applications were received for industrial licences and 22 new industrial licences were granted. The new investment represented was K. 15.3 million whereas the 1977 total of K. 82.3 million had included the Dwangwa sugar project to cost K. 80 million. Some 2,723 new jobs would be created by the 1978 investments. A major new project was the K. 9.6 million proposed for two tobacco processing plants.

(c) Electricity. Electricity sales rose to 274.5 million kWh in 1978, an increase of 3.5 per cent over 1977 but below the rates of increase recorded in 1975, 1976 and 1977.

Work on stage 1 of the Nkula B scheme proceeded satisfactorily in 1978 and by the end of the year half the civil work had been completed. Erection of the electrical and mechanical plant started in 1979. This Nkula 'B' power station has been designed to accommodate 5 x 20 MW units and it was decided in 1978 to extend the plant erection to include the third generating unit.

(d) Construction. This sector recorded a major advance in 1978 because of the tremendous increase in building and construction work. Cement sales in 1977 had risen to 93,093 tonnes and there was an increase of 20 per cent in such sales to 11,549 tonnes in 1978.

The value of construction output was K. 58.2 million in 1977 and rose to K. 60.1 million in the first nine months of 1978.

In the first five months of 1979 cement sales were 59 per cent higher than in the same period of 1978.

(e) Transport services: The traffic figures given in table 3 show for 1978 some increase in passengers carried on the railways and a 13.6 per cent rise in passengers handled at the two main airports. There was also a further increase in road vehicles licenced but for freight there was a slight fall in net ton miles of the railways while freight handled at Chileka Airport was also reduced.

The major areas of investment in 1978 were roads on which K. 14.98 million was spent while K. 12.6 million was spent on the Lilongwe-Mchinji rail project and K. 1.8 million on the Salima-Lilongwe rail line. A further K. 18.1 million was spent on civil works at Lilongwe New International Airport.

(f) Tourism. Data are scarce but they show that the number of visitor departures was 47,154 in 1978 compared with 43,509 in 1977, 50,107 in 1976 and 57,702 in 1975.

Malawi: Table 3. Selected transport indicators, 1975 to 1978

	1975	1976	1977	1978
<u>Rail transport</u>				
Passengers (thousand)	1 211.2	953.7	964.2	1 015.0
Freight (million net ton miles)	168.6	143.9	137.7	135.0
<u>Road transport</u>				
Vehicles licenced (thousand)	9.46	10.64	15.52	18.00 a/
<u>Air transport</u>				
Passengers handled at two airports (thousand)	313.7	202.2	215.5	244.8
Freight at Chilika airport (tonnes)	3.98	11.45	14.56	13.38

Source: As table 2.

a/ Rough estimate only.

#### 4. Expenditure and the GDP

In 1978 there was a very large rise in fixed capital formation and as stocks also increased, total investment reached a level equal to 31.6 per cent of GDP.

Malawi: Table 4. Expenditure and the GDP, 1975 to 1978 (millions of Kwacha)

	1975	1976	1977	1978
<u>At current prices</u>				
Private consumption	444.5	516.0	550.4	633.2
Public consumption	68.9	73.9	83.5	119.4
Gross fixed capital formation	145.6	135.0	158.4	265.9
Change in stocks	+5.2 a/	-35.2 a/	+10.6	+17.2
Exports <u>less</u> imports of goods and services	-96.6	-36.9	-33.6	-139.5
GDP at market prices	567.6	652.8	769.3	896.2

Source: As table 1 for 1977 and 1978. Official data from Malawi for 1975 and 1976.

a/ Balancing item.

In 1977 this proportion had been 22.0 per cent. Because the increase in investment expenditure in 1978 was financed by a greater inflow of foreign resources, there was no reduction in the proportion of GDP on consumption and in fact, because of a substantial increase in public consumption, total consumption rose from 82.4 per cent of GDP in 1977 to 84.0 per cent in 1978 resulting in a fall in the rate of domestic saving from 17.6 to 16 per cent.

# 5. External trade and balance of payments

The very large deficit for external trade in 1978 has already been commented on, the rise in imports from K 209.8 million in 1977 to K. 285.2 million in 1978 was related to some extent to the much larger investment programme and in fact imports of plant, machinery and equipment rose by K. 16.5 million while imports of construction materials increased by K. 17.6 million. However, the other main reason for the record trade deficit of K. 128.0 million was the fall of 12.7 per cent from K. 180.3 million to K. 157.4 million in total exports.

Export earnings from tea, sugar, groundnuts fell markedly in 1978 because of lower prices in the case of tea and sugar but because of lower volume for groundnuts. Import prices rose by 10.8 per cent in 1978 and the terms of trade deteriorated by 16.1 per cent.

Malawi: Table 5. External trade and balance of payments 1975 to 1979 (millions of kwacha)

	1975	1976	1977	1978	Jan-May 1979
<u>External trade</u>					
Exports	122.12	151.62	180.33	157.14	54.12
Imports	218.66	188.47	209.79	285.18	136.92
Balance	-96.54	-36.85	-28.46	-128.04	-82.80
<u>Balance of payments</u>					
Goods and services (net)	-80.5	-70.4	-56.6	-143.6	
Private transfers (net)	4.3	4.9	5.0	5.0	
Government transfers (net)	7.3	26.8	18.0	32.7	
Capital	76.4	55.1	77.6	81.0	
Reserves and related items	16.1	32.9	-44.6	16.5	
Errors and omissions	-23.6	-49.3	0.6	8.4	

Source: IMF, International Financial Statistics: vol. XXXII No. 10, October 1978.

There has been a substantial inflow of capital into Malawi since 1975 and in 1977 and 1978 the capital net inflows were K. 77.6 million and K. 81.0 million respectively. This capital inflow has been supplemented by net inflows of both private and government transfers and the total flow of resources in 1977 was sufficient, despite a net deficit for goods and services of K 56.6 million, to allow the country's internal reserves to be raised by K. 44.6 million. In 1978 the deficit for goods and services was so large at K 143.6 million that despite increases in both capital and transfer net receipts the international reserves were reduced by K. 16.5 million.

The first five months trade figures for 1979 suggest that it will be a particularly difficult year from the point of view of external payments. If there is a wider trade deficit as seems likely Malawi's international reserves seem destined to fall substantially.

# 6. Development aid and external debt

Some information on net transfers (grants) received by the Government has been given in the balance of payment statistics in table 5. Despite annual fluctuations such net transfer receipts have been rising quite markedly and in 1978 were K. 32.7 million.

Despite these increases, public sector external debt has grown rapidly over the last few years and in 1978 the total outstanding was K. 262.8 million compared with K. 177.2 million in 1976. Total debt servicing has increased, public debt charges were K. 21.1 million in the 1978/79 financial year but K. 30.5 in the estimates for 1979/80.

# 7. Government revenue and expenditure

Information given in table 6 shows that it has been possible to keep recurrent expenditure below recurrent revenue in all the years 1975/76 to 1978/79 so that the surplus on current account could be used towards development expenditure.

Malawi: Table 6. Government revenue and expenditure, 1975/76 to 1979/80  
(millions of Kwacha)

	1975/76	1976/77	1977/78	1978/79	Estimates 1979/80
Recurrent revenue (gross)	84.70	94.31	115.65	145.73	155.25
Recurrent expenditure (gross)	84.42	93.64	108.28	141.46	149.40
Balance	+5.28	+0.67	+7.37	+4.26	+5.85
External loans	36.65	28.22	47.25	59.45	80.20
Grants and reimbursements	11.00	9.37	15.98	44.84	43.15
Other local revenue	0.27	1.51	0.72	4.28	5.21
Development expenditure	70.01	55.91	76.57	130.48	151.40
Other financing required	2.47	-2.77	-7.62	...	...
Total local resource requirement	19.28	13.36	-2.32	...	...
Financed by:					
Increase in locally registered stock	13.40	4.00	16.00	16.00	16.00
Increase in Treasury Bills	1.97	-	...	...	...
Cash balances	3.91	9.36	-18.31 a/	...	...

\*Source: As table 1.

a/ Increase in balances.

Recurrent expenditure increased by 30.6 per cent in 1978/79 or faster than the 26 per cent rise in recurrent revenue so the surplus was reduced from K. 7.37 million to K. 4.26 million. In 1978/79 development expenditure rose particularly rapidly and the total was K. 130.48 million compared with K. 76.57 million in 1977/78. External loans of K. 59.45 million together with grants and reimbursements of K. 44.84 million were largely responsible for financing the development expenditure but it was also necessary to float locally registered stock of K. 16 million.

For 1979/80 the budget estimates show only a small rise in current expenditure of 5.6 per cent but a more substantial increase in development expenditure of 16 per cent. Total expenditure is set at K. 300.8 million and its financing requires external loans of K. 80.2 million, grants and reimbursements of K. 43.2 million locally registered stock of K. 16 million as well as recurrent revenue of K. 155.25 million.

#### 8. Money and banking

The major influences on money supply in 1978 were the large fall in net foreign assets and the substantial increases in domestic credit to the Government and particularly to the private sector. Net foreign assets had been positive at K. 10.33 million at December 1977 but fell to a negative K. 11.33 at December 1978. This effective decline of K. 21.6 million meant that much of the increase in credit to the private sector of 44 per cent or K. 37.5 million was compensated for; the rise in net claims on the Government in this period was K. 13.7 million or 39.3 per cent.

Money plus quasi-money increased by only 4.8 per cent in 1978, there was temporary large rise in other items (net) in the monetary aggregates so that the increases in domestic credit mentioned above had little direct influence on money supply within Malawi.

In the first half of 1979 there were further substantial rises in credit to the Government and to the private sector and a very large fall in net foreign assets. Money and quasi-money increased by 15.5 per cent in this period.

Malawi: Table 7. Monetary survey, 1975 to 1979 (millions of Kwacha)

	End 1975	End 1976	End 1977	End 1978	June 1979
Net foreign assets	21.65	-24.24	10.33	-11.33	-50.15
Domestic credit					
Net claims on Government	34.40	45.53	34.87	48.59	48.42
Claims on official entities	32.78	42.41	50.83	50.70	52.87
Claims on private sector	56.09	76.55	84.95	122.38	159.27
Money	73.62	72.80	100.06	93.84	112.08
Quasi-money	48.73	48.24	60.93	74.77	82.74
Other items (net)	22.52	19.20	19.92	41.74	25.65

Source: IMF, International Financial Statistics, vol. XXXII No. 10, October 1979.

#### 9. Wages and prices

In 1978 average monthly earnings rose by 17.5 per cent over 1977 and reached K. 34.52. In agriculture the average was as low as K. 14.18 but in finance insurance and business services it was K. 132.61. Consumer prices rose by 8.5 per cent in

1978 so there was a significant increase in real earnings in this period. The rate of inflation at 8.5 per cent in 1978 was twice the level recorded in both 1976 and 1977.

#### 10. Employment and unemployment

The level of paid employment continued to increase in 1978 and the total numbers employed rose from 308,876 to 336,098 or by 8.8 per cent. The largest increase was in employment in the construction industry where there were 31,613 employees in 1978 compared with 23,250 in 1977.

A manpower survey was being conducted in 1979 designed to up-date the information collected in 1971 and forecast the demands of the Malawian economy for skilled and trained manpower for 1985 and 1990.

While Malawi has a large agricultural base and rural area activities account for much of the gainfully-occupied persons, there are probably substantial numbers who would seek work in the modern non-agricultural sectors of the economy if the opportunities were available.

#### 11. Other social sectors

(a) Education. Enrolment in primary schools increased by 1.8 per cent to 675,740 pupils in 1977/78, at the same time the number of primary school teachers rose by 3.5 per cent to 11,115. The pupil/teacher ratio is still high at 61.

Enrolment in secondary education rose from 14,826 to 15,140 in 1977/78. Seven schools are being expanded so the enrolment will increase further. There were 1,153 students at university or virtually the same number as in 1976/77.

Technical education is still very small, there were only 913 pupils in 1978 while there were 1,433 persons at primary teacher training colleges.

There is a programme for building model primary schools in each district to serve as models for the construction of self-help school blocks by local communities.

(b) Health. Despite considerable progress in the provision of health services, major problems still remain. The demand for health care is constantly increasing while problems of finance have their own impact on the size of the health budget. Present priorities are to establish a network of health units, the replacement and renovation of antiquated hospitals, the provision of health facilities in the main agricultural development areas and the training of medical personnel. Progress is continuing in all these priority areas. By 1978/79 work on the Mwanze Hospital had been completed and had started on two other hospitals. The re-development of a further five 150 bed hospitals is envisaged during the next three years.

(c) Housing. The Malawi Housing Corporation developed 1,400 plots under its site and service scheme in 1978 and built a number of permanent houses. The corporation's housing stock is now 9,297 houses.

However, there is yearly increasing demand for housing in most urban areas arising from the fast growth of these areas. The current total demand for permanent housing units was 25,212 at the end of 1978 while there were also 14,628 applicants for site and service plots.

#### B. MAJOR PROBLEMS

As reported in last year's survey there are shortages of educated and skilled local manpower especially in certain key disciplines such as accountants, engineers,

extension workers and doctors. The demand for housing and health services indicates the continued shortages in these areas. Wage employment is growing rapidly but the total of 336,098 in 1978 is still very low in relation to a population of 5.5 million.

While Malawi has traditionally run a trade deficit which has been covered by increasing capital and aid flows, the size of the deficit in 1978 and indicated for 1979 has led to a sharp reduction in the country's international reserves. Some of the current problems facing the economy are due to adverse developments in neighbouring countries and cannot easily be overcome in isolation from the resolution of these unsatisfactory circumstances.

### C. INTERNAL DEVELOPMENT POLICIES

In line with its policy of raising the living standards of the people and in particular those in the rural areas, development particularly in the field of agriculture is being speeded up as can be illustrated by the doubling of the rate of Government investment expenditure between 1977/78 and 1979/80. A fast growth rate of the economy is essential to create many more employment opportunities and generate the higher incomes desired.

Agricultural productivity is being raised by promoting improved agricultural technology, providing farm input packages and improving the market structure.

The current three year rolling public sector investment programme for the years to 1981/82 covers a total expenditure of K. 771 million of which 16.9 per cent is for agriculture, forestry and fishing, 16.2 per cent for finance, commerce and industry but mainly the latter and 31.5 per cent is for transportation projects. Education, health and housing is allocated K. 79.5 million or 10.3 per cent of the total.

The high proportion for transport projects is to some extent connected with creating new transport links to help the country's external trade and the trade of its neighbours. Road, civil aviation and railway projects are included. For the rail extension, the Lilongwe/Mchinje link is at an advanced stage. A major project under finance, commerce and industry is the infrastructure required for the Vipha Pulpwood Project.

Of the total three-year programme, as much as 89.6 per cent or K. 691 is to be sought from external sources.

### D. PROSPECTS FOR 1979 AND 1980

The continuous increase in development expenditure is creating a base for rapid economic expansion. However, the high level of activity is causing imports to increase much more rapidly than exports. In fact in 1979 exports look as if they may again be reduced while imports are rising rapidly.

Provided there are no problems over funding, higher investment expenditure in both 1979 and 1980 should help the continuation of the economic growth recorded since 1970. But weather conditions in that part of Africa in the 1978/79 season were not good so this could have an adverse impact. Also commodity prices were not attractive for Malawi's main exports in 1979 while import prices especially petroleum have again increased.

On balance the growth rate in 1979 will probably be below the average recorded in recent years. For 1980 there could be some improvement but generally unfavourable world economic conditions will reduce the growth that might otherwise have been possible.

