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THE ECONOMIC SITUATION IN AFRICA AT THE BEGINNING OF 1992

1. An overall assessment

At the beginning of 1991, our forecasts for that year reflected a definite optimism. The quick end of the Gulf war without an explosion of oil prices, the portends of a good agricultural year after the poor 1990 one, and the prospects of an early end to the recession in industrialised countries were factors in our forecast of a 3.3 per cent growth of the African economy in 1991. After a decade during which growth has averaged a mere 2.1 per cent, this meant that the region was probably starting on the way of recovery.

In the event, the expected recovery in industrialised countries failed to materialise and the recession there appeared to be stronger than previously thought. In fact, according to DIESA, developed market economies (the "old" ones), did not grow at all in 1991, and according to the OECD secretariat, OECD economies as a group grew by 1.1 per cent only in 1991, the United States experiencing a 0.5 per cent drop in real GNP. These trends had a direct effect on world trade and on commodity prices. While world trade volume grew by 5.2 per cent in 1990, it increased by only 3.3 per cent in 1991, according to the OECD secretariat. Oil prices remained weak throughout 1991 at barely \$20 a barrel and non fuel commodity prices fell to historical lows.

Main Economic Indicators

	1990	1991	1992
Output growth (%)			
Developing Africa	3.2	2.3	3.6
Oil exporters	4.0	3.3	3.2
Non oil exporters	1.7	0.6	4.2
North Africa	2.8	3.4	4.0
Sub-Saharan Africa	3.3	1.5	3.4
Agricultural production (growth in %)	0.8	2.5	..
Cereal output (million ton)	76.3	87.4	..
Oil production (million tons)	321.2	336.5	..
Exports (\$ billion)	75.2	70.4	..
Imports (\$ billion)	76.6	77.0	..
Commodity prices (growth, per cent)	-3.2	-3.6	..

The effect of the good agricultural results in 1991 and total agricultural production rose by 2.5 per cent, were partially negated when a significant number of countries in Eastern and in Central Africa experienced various levels of political strife which impeded or paralysed economic activity. If the civil war came to an apparent end in Ethiopia and in Angola, the economies of these two countries remain in dire straits with a net fall of output in Ethiopia and most of the non oil sectors of the economy practically non functioning in Angola. In Somalia the civil war has been raging since the end of 1990 with enormous material losses not to speak of the human ones. In Zaire, economic activity stopped more or less after the riots of last september, the key mining sector suffering the most. In other countries of Central and West Africa, serious political conflict has also led to significant economic losses, as in Chad, the Central African Republic, Congo, Cameroon, Benin and Togo. On the other hand, the civil war situation in Liberia has not been resolved and it has spilled over in neighbouring Sierra Leone.

As the result of the trends described above, economic growth slumped in 1991 to only 2.3 per cent, compared to a revised figure of 3.2 per cent in 1990. By major economic groupings, while oil exporters grew more slowly in 1991 by 3.3 per cent compared to 4 per cent in 1990, in non oil exporting countries, i.e 42 countries including Namibia, growth dropped to only 0.6 per cent in 1991 after 1.7 per cent in 1990. For mineral exporters(excluding oil exporters), aggregate output is estimated to have fallen by a huge 3.7 per cent owing to the crisis in Zaire and the recession in Zambia. As for beverages exporters, growth amounted to a mere 1 per cent, after 2 per cent in 1990.

The situation by subregions shows that Central Africa and Eastern and Southern Africa are the areas most affected by the downturn. In the Northern African subregion, output is estimated to have grown by 3.4 per cent, a net improvement on the 2.8 per cent recorded in 1990. But for Sub-Saharan Africa as a whole, output has increased by a mere 1.5 per cent, with a drop of 3.6 per cent in Central Africa and a rise of 1.3 per cent only in Eastern and Southern Africa, while in West Africa an excellent crop and good performance in Nigeria have resulted in an overall growth rate of 3.2 per cent.

2. Main sectors

Agriculture

Weather conditions improved significantly in 1991 in most areas in the region, particularly in North Africa, the Sahel and the Horn of Africa. For example in Algeria, where drought conditions prevailed in recent years, the excellent rains brought up an increase of cereal production to 35 million quintals from only 16 million in 1990. In the Sudan the 1991/92 harvest reached an estimated 3.8 million tons after a mere 2 million in 1990/91. Overall, cereal production in developing Africa is estimated at 87.4 million tons compared to a figure of 76.3

million in 1990, 14.5 per cent more. By subregions, there was a record 28.8 million tons harvest in North Africa(Sudan non included), 26 per cent higher than in 1990, with particularly good results in Egypt, Morocco and Tunisia. In Egypt, better incentives to farmers and the introduction of more productive varieties resulted in a crop estimated at 13.7 million tons. In West Africa, the cereal crops(mostly coarse grains) reached 27.5 million tons, 16 per cent higher than in 1990, with a record figure of 8.7 million tons in the Sahel, a third higher than in the preceding season. In Eastern Africa(Sudan included), the crops were above average, with a very strong recovery in the Sudan, but relatively unfavourable results in Ethiopia and Kenya. In Southern Africa, crops were average or below average, with poor outputs in Zimbabwe.

Though an excellent indicator of the agricultural situation, the cereal crop should not be overemphasized, since in many areas of tropical Africa, particularly in Central and Southern Africa, roots and tubers play a fundamental role in the diet and are in fact the most important food crop. In this respect too results have been favourable, the FAO reporting a rise of 2 per cent in total output.

Despite the generally favourable crops in 1991, the food supply situation remains serious, and a food emergency is continuing in the Horn of Africa and in Mozambique, while the food supply is difficult in Angola, Liberia, Sierra Leone and Zaire. According to the FAO, 4.5 million people or 60 per cent of the total population are either threatened by famine or enduring severe malnutrition in Somalia. In the Sudan, it reports that as much as 8 million people are in need of food aid because of the after effects of drought or because of displacement. For the 1991/92 season, the FAO sets food aid requirements for Sub Saharan Africa as 2.8 million tons.

Mining

Oil production has increased in 1991 (5 per cent), though at a lesser rate than in 1990 and reached an estimated 336 million tons. Some countries have been producing practically at full capacity and in some others such as Angola, Gabon and the Congo, additions to reserves have boosted production. In the wake of the OPEC meeting of early february 1992, it is unclear whether production will continue to grow, since African producers such as Algeria, Libya, Nigeria and Gabon have agreed to substantial cuts in their quotas.

For non fuel mining, the situation in 1991 has not been generally favourable. In Zaire, which is a major world producer of copper and cobalt, political turmoil has led to big cut in copper production from around 350,000 tons in 1990 to only 200, 000 tons in 1991, while cobalt production is reportedly down to 9,000 tons. The interruption of cobalt deliveries for some time after september 1991, led to an explosion of prices on the free market over \$30 per lb at one point. Zambia the other big copper and cobalt producer was not however able to make for the shortfall as its copper production suffer from resource depletion and its mining operation affected

serious technical problems. Overall, African copper production is estimated at only 772,000 tons in 1991 compared to 935,000 tons in 1990. In other countries, mining production rose substantially in Zimbabwe as well as in Botswana which has a privileged position as a major diamond producer. In other parts of the region, phosphate mining recovered in Morocco after marketing difficulties in 1989, bauxite production declined in Guinea.

3. Commodity prices

In 1991 oil prices remained mostly under \$20 a barrel. They rose very briefly in early January, dropped immediately after to under \$20 to recover afterwards only slightly. By the end of 1991, there was a brief rise of prices over \$20 but prices declined again, and in February 1992, they are at around \$18.5 a barrel despite the production cuts announced by OPEC. The future position of the market is uncertain as Iraq has rebuilt its capacity to 2 million b/d and Kuwait will be able to produce around 900,000 b/d by the end of the year. In addition, the position of Saudi Arabia to maintain its market share and avoid big price fluctuations does not militate for higher prices.

Non oil commodities prices have been naturally affected by low international demand. The IMF index of non fuel commodities lost an average 12 per cent in 1991. Beverages prices declined on average by some 7 per cent, down to their lowest level since 1975, Uganda's coffee priced at 41.1 cents per pound the lowest price since 1972 when it sold at 45.18 cents a pound; the cocoa price of 54.1 cents a pound was also the lowest since 1975, when the price was of 56.51 cents a pound. For agricultural raw materials, the slide begun in 1988 continued, with a further drop of 2.8 per cent in 1991. The minerals and metals boom of 1988-1989 was replaced by a bear market, prices losing an average 11.7 per cent. Copper, the principal metal export for the region, was down to 1.06 dollars a pound, a loss 12 per cent, after reaching roughly \$1.3 a pound in 1989.

4. Foreign trade and payments

When exports had strongly increased in 1990 because of higher oil prices and the relaxation of OPEC quotas, and were estimated at some \$74 billion, the picture is quite different in 1991. The \$74 billion figure for 1990 may be an overstatement because of serious valuation problems for countries such as Egypt whose exchange rate to the dollar has been difficult to determine. Granted this, results for the second half of 1991 indicate a stagnation or even a drop in the value of exports, an understandable trend given the slide in export prices analyzed previously. Exports could be down to \$70 billion, or even less.

Imports have stagnated and have remained at roughly the same level as in 1990. The biggest importers, i.e the oil exporting countries have experienced sharply reduced incomes after the 1990 windfall, and many of them have had to give priority to debt service, as has been the

case in Algeria and Nigeria. Economic performance has been under expectations in non oil exporting countries, and import demand has been therefore reduced as the same time as export revenues have dropped.

There are no clear signs as to the trends of resource flows during 1991, other than what was known at the beginning of the year i.e an increase in 1990 in nominal terms, and debt concessions to lower income countries in the framework of the Toronto initiative and to Egypt following the resolution of the Gulf crisis. Available data in any case do indicate that the improvement in the current account observed in 1990 has not been undone in 1991, the deficit probably at approximately the same level.

There are however worrying portends of further conditionality on aid, following the conditions imposed on Kenya concerned "human rights" and "pluralist democracy", which means that to obtain financing African countries will have to fulfil conditions as to their internal political regimes.

5. Economic policies

The past year may have been a watershed, a time when the issue of economic adjustment has linked with the issue of the political regime itself, a not unsurprising development since economic adjustment cannot be undertaken if fundamental questions of political economy are not solved, for example, the role of the state. In any case the economic reform has continued around the region, with significant changes in such diverse countries as Algeria, Egypt, or Angola. In Angola, price liberalisation was introduced in december 1991, and measures announced to reorganise the public sector, while the currency, the New Kwanza, undergone a second devaluation. In Zimbabwe, far reaching changes were introduced by the government under its five year adjustment program, including the removal of most price controls, the liberalisation of interest rates, the extension of the export retention scheme and the devaluation of the currency. In Algeria, the framework of a free market economy was laid down, most public enterprises granted management autonomy, "socialist" farms replaced by cooperatives and/or private farms, the financial market opened to foreign operators and the currency devalued. In Egypt, the multiple exchange rates system came finally to an end, with the establishment of two money markets both geared to a free market for the currency.

Those changes remained however difficult ones to implement, because of the social costs involved and of the difficulties in managing a free market type economy. Price liberalisation whatever its benefits in the medium and long term, entails a painful rise in the prices of necessities for the greater part of urban dwellers who have been in many instances sheltered by subsidies. Moreover, the commercialisation or privatisation of the public sector cannot by itself guarantee a job for the growing numbers of graduates coming out of secondary schools and

universities. And the opening of the economies itself, means that many firms will not withstand foreign competition and go under.

6. Prospects

As usual we forecast an improvement in African economic conditions. Though recovery in industrial countries is not yet clear, all signs are that an upturn will obtain this year. In any case, the OECD secretariat forecasts an increase in OECD output of 2.2 per cent compared to 1.1 per cent only in 1991. For its parts, DIESA at Headquarters envisioned a similar figure for the 7 major industrial economies, and the IMF in its October World Economic Outlook projected a growth rate of 2.8 per cent for industrial countries in 1992.

The recovery in industrial countries will anyway be a weak one when and if it materialises, and the stimulus to African countries cannot be very great, though there are expectations of a rebound of world trade. So most of the expected recovery in the region should come from internal factors. Among them is the return to stable conditions in the countries which have experienced strife during 1991.

This crucial assumption accounts for most of the 3.6 per cent output growth envisaged for the region in 1992. There are however emerging trends which could worsen the outlook. In particular the drought conditions in Southern Africa, where the situation has become serious in Zimbabwe: crop losses of up to 50 per cent are reported and the country grain supply is not expected to last beyond the end of march. In addition recent OPEC mandated cuts in oil production could hurt oil exporters if they are not counterbalanced by higher prices as the case seems to be.

Another factor to take into account is the financial one. The debt issue is far to have been solved, African countries still bound by unmanageable debt obligations, while hand the needs of the region are increasingly getting second place relative to those of others. The new conditionalities alluded to before are an additional difficulty.

However, one should not lose sight of the elementary fact that African countries are in the end responsible for themselves and that external agents cannot substitute for them.